THE BOOK WAS DRENCHED

CONGRESS SELECT COMMITTEE
ON THE
FINANCIAL OBLIGATIONS
BETWEEN
GREAT BRITAIN AND INDIA

PROF. K. T. SHAH'S

ANNEXTURE TO THE REPORT

VOLUME II

BOMBAY

1931

[PRICE ONE RUPEE]

First Printed . . . *August 1931*
Second Print . . . *August 1931*

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CHAPTER I

Introductory Scope and Purpose of the Enquiry

1. *Terms of Reference.*—This Committee was appointed by the Working Committee of the All India Congress Committee "to carry out a scrutiny into the financial transactions of the East India Company and the British Government in India, and the so-called Public Debt of India and to report on the obligations, which should be in future borne by India or England".

2. *Need for Proper Interpretation.*—I consider that the clear interpretation of these our Terms of Reference, is indispensable for a proper appreciation of the scope and purpose of our Enquiry. Without a clear notion of the main object and aim of this Enquiry,—to appreciate which it is not absolutely necessary to read into the Reference more than is expressly stated in it,—the Committee, I apprehend, would not be able to do full justice to the subject matter of its Enquiry. I have accordingly tried to formulate, as clearly as I have conceived them, the aims and objects of this Enquiry, as well as the meaning and purpose of this Reference.

3. *Object and Scope of the Enquiry.*—The Terms of the Reference made to this Committee indicate a threefold Enquiry :—(*a*) There is, in the first place, the aggregate of the transactions of the East India Company and the British Government, which have resulted in considerable financial burdens or obligations being imposed upon India. These burdens continue to press upon this country and its resources even now, if not in the exact form, manner and amount in which they were originally imposed, at least indirectly and as part of those endless obligations which have been incurred without any specific, pre-determined term or ending being attached to them. As such, these need to be examined in their proper historic setting, if those concerned are to apprehend fully their place in the existing obligations. At the time these burdens were cast upon India, the Indian people were allowed no voice in the arrangements made; and, apart from isolated individual dissents,—like that of John Bright in Parliament,—no one ever gave a thought to the Indian aspect of this one-sided arrangement. The equity and propriety of these transactions need, therefore, to be carefully considered, at a moment when the Indian people are about to take charge of their own administration. The Government of India, which followed or succeeded the Company's Government, in virtue of an Act of Parliament, were saddled with these burdens; and they also, though supposed to be created and instituted in the interests and for the welfare of the Indian people, as the Queen's Proclamation has it, never scrutinised the fairness of the transaction by which they came into charge of the Government of India, as it ought to have been at the time, or since.

East India Company's Transactions.

4. (*b*) *Transactions of the Government of India under the British Crown.*—The transactions of the British Government of India, since the day the present regime came into effect, are the next block of items. In these we include only those transactions which have resulted in financial burdens on India, and which demand a careful scrutiny from the standpoint of the benefit received by the Indian people, that has hitherto never been applied. These burdens or obligations are, however, inextricably mixed up with the general fiscal or financial

Considerations of general policy.

policy, without some consideration of which it would be all but impossible to understand, much less to scrutinise, individual transactions, or even groups of them made under some convenient principle of classification.

5. (c) *Apportionment of Obligations.*—The third part of the Reference demands a report on the obligations which should in future be borne by India or by England. I hold this clause to mean the apportionment of existing obligations, as scrutinised and recommended upon by the Committee, as between India and England. The reason for including this part of the Reference is, as I conceive it, explained below in para. 6.*

6. *Dangers of Narrow Interpretation of Reference.*—The Committee's Reference, narrowly interpreted, would perhaps not permit a comprehensive review of the Fiscal and Financial Policy of the Indian Government during the British occupation of the country, which could analyse, in their motives or origins and constituents, the several financial transactions, so as more clearly to bring out their equity or otherwise. But, inasmuch as the latter is the dominant object of the present Enquiry, I consider it indispensable to make such a review of matters of financial policy as bear directly on outstanding financial transactions, and result in substantial burdens. The object of this Enquiry, as I conceive it, is not merely to take up isolated, individual transactions, out of their historical setting, out of their place in the evolution of the entirety of these transactions, and pronounce on their equity, or admissibility as rightful, proper burdens on India, when the country and its Government come once more directly under the people themselves. It should also include such a review of the general financial policy as would throw the individual transactions into their proper perspective and thereby exhibit the fairness or otherwise of each in a proper light.† Without such an exhibition in their proper perspective, the re-apportionment of India's obligations, individually or in the aggregate, will be impossible.

Objects of the Enquiry.

7. *Reference not merely for Counsel's Opinion.*—I cannot, likewise, interpret the Reference so as to make the purpose of this Enquiry, to be merely a pronouncement of Counsel's opinion on individual transactions, or groups of them, from the standpoint of real liability for the same. For one thing, such a course is, in itself, difficult properly and satisfactorily to discharge, for want of an adequate appreciation of the nature and bearing of each transaction, away

*In this connection it is instructive to note the treatment of this question of India's financial obligations and the so-called Public Debt in the negotiations carried on by Sir Tej Bahadur Sapru and Mr. Jayakar with the Congress leaders, and representing their viewpoint to the Viceroy. Messrs. Jayakar and Sapru said that "as regards the financial obligations not covered in the Viceroy's letter dated the 20th August we have reason to believe from the conversation we had with the Viceroy that a settlement was possible on the following basis :—

"As regards the right to raise the question, at the Round Table Conference, of India's liability to certain financial burdens and to get them examined by an independent tribunal, the position was that the Viceroy could not entertain any proposition amounting to a *total* repudiation of *all* debts; but it would be open to any one to raise at the Round Table Conference any question as to any financial liability of India and to call for an examination."

†In reply, Messrs. Motilal and Jawaharlal Nehru and Syed Mahmud pointed out on this subject, in their letter dated 31st August :—

"In regard to the other proposition, we are told that Lord Irwin could only entertain the idea of a few individual financial transactions being subjected to scrutiny. While such scrutiny may take place in individual cases, its scope will have to extend to the whole field of British claims, including, as we have stated, the so-called public debt of India. We consider both these questions as of vital importance, and a previous agreement on the lines suggested in our joint letter seems to us to be essential."

or apart from the circumstances and considerations which brought them about. There is, moreover, a real danger that such a course may result in undue attention being paid, even subconsciously, only to the letter of a transaction,—only to the merely legal obligation arising therefrom,—rather than to the general spirit of substantial justice and propriety, which alone ought to govern dealings between one people and another. The analogy of purely Municipal Law, governing the dealings between one individual citizen with another, unconsciously applied by any one reviewing such matters as Counsel, is calculated to be as perilous as it is misleading. Hence, the conception of our Reference, as requiring only Counsel's opinion on the propriety, legality or justice of each of them, should be avoided, as being too narrow and likely to mislead. Even if that aspect of our task is kept in view, it ought to be tempered by considerations of broader principles that govern the course of international dealings.

8. *Nor for Arbitrator's Award.*—The conception, moreover, which would identify our inquiry with the task of the final arbitrator, or negotiator engaged in the ultimate settlement of the question, would also be inapplicable, so far as the present Enquiry is concerned. It is, for one thing, doubtful whether, at this moment, the principle itself is agreed to: that the question of India's financial obligations should be referred to arbitration. But even if it were so, the present Committee's task is not to constitute itself, avowedly or by implication, the final arbitrator. The Committee's work, as I conceive it, is only to collect and collate the material necessary for whosover conducts the final negotiations and brings about a settlement. The ultimate negotiator or final arbitrator cannot make the settlement, or give the award, in the absence of all the material considerations and circumstances governing the situation in its aggregate, as well as the several transactions comprised in that situation. I, accordingly, hold the object of this Enquiry to be to collect such material, by way of facts, figures, circumstances and conditions, opinions and analogies and precedents, which seem at all to bear upon the case; and present the report on a careful analysis and consideration of all these, with a view to guide the final negotiator or arbitrator in arriving at the requisite decision.

9. *Raison d'être for Third Part of Reference.*—The main reason, I think, for including in the reference its third part, is to show that there is no intention, on the part of the authors of such a Reference, summarily to dismiss or disown all claims against India, or repudiate all obligations imposed upon this country by its existing government. This Committee is to consider, as already indicated, the fitness and propriety, the justice and equity, or individual or aggregate liability, for debts etc. hitherto charged against India. The Committee should concern itself only with enquiring into India's liability on broad considerations of public morality and international usage or precedent. The Resolution of the Indian National Congress bearing on the subject may be quoted here to lend point to this argument. Though the Congress at Gaya (1922) had passed a somewhat radical resolution on the subject, the Lahore Congress of 1929 only says:—

> "This Congress is of the opinion that the financial burdens directly or indirectly imposed on India by the foreign administration are such as a free India cannot bear and cannot be expected to bear. This Congress, while re-affirming the resolution passed by the Gaya Congress in 1922, *records its opinion for the information of all concerned that every obligation and concession to be inherited by an independent India will be strictly subject to investigation by an independent tribunal: and every obligation and every concession, no matter how incurred or given, will be repudiated if it is not found by such a tribunal to be just and justifiable.*"

This has been represented to the popular mind by interested parties as equivalent to a notice to refuse payment. Reference has, however, already been made to the gloss on this matter one could glean from the Peace Negotiations with the Congress leaders, then in jail, carried on by Sir Tej Bahadur Sapru and Mr. M. R. Jayakar last year, which justifies the belief that: the text of the Congress Resolution is amenable to a more orthodox interpretation as simply a notice to the would-be creditor of India as regards future liability, and a demand for an impartial investigation, by some international tribunal, into the equity—if not the legality—of the obligations now sought to be fastened upon India in the name of her "Public Debt".

II.—Method of Treatment.

10. *Unavoidable Elaboration of Argument in this Report.*—It may be, that in such a conception of the scope and purpose of our work, as has been adopted in this Minute, one runs the risk of elaboration to a seemingly excessive degree; and of introducing arguments or analogies which may not quite fully bear upon the case precisely. So far as I could perceive such a peril, I have endeavoured to guard against it. As for elaboration of the arguments and reasoning, *per se*, I think it is better, if necessary or unavoidable, to err on the side of such elaboration than on the side of undue conciseness in stating the case. The latter course may very likely give an incorrect impression of the matter, and sometimes might even mislead.

11. *Re-apportionment—how advised upon.*—Having considered and advised upon this liability, the Committee must further give its opinion upon the distribution of this liability as between India and England, so that the just claims or the fair interests of innocent third parties may not in any way be injured, or endangered. The bulk of the final negotiations will, it is obvious, have to centre round this point; and the Committee's recommendations must necessarily take the appearance of suggestions, rather than of decision. But that their suggestions may not appear *ad hoc* or disjointed, the Committee, it is clear, is bound to lay out the reasons which lead it to make particular recommendations. This is necessary, not only in justice to the Committee, so as to make their recommendations more easily understandable by the reader; but even more in justice to the ultimate negotiator or arbitrator, who, if he is made aware of the reasons influencing the Committee's judgment in each case, may be in a better position to take his own ultimate decision in the matter. In suggesting apportionment, therefore, the considerations must be indicated which guide the Committee in arriving at their opinion in each case, giving also the analogy of previous investigations, if any, where an attempt has been made in the past at such an apportionment.*

12. *Certain Cognate Questions also considered.*—These considerations include, it may be added, matters which are in themselves more in the nature of counterclaim by India against England, arising out of these or cognate transactions, taken by groups or from matters of general financial policy, than specific diminution or negation of the liability of India in particular cases. It seems to be impossible to include these considerations by way of what may be called counterclaim, for want of a more appropriate expression, in any other place. It is evident, however, that without a mention of these, there is a serious risk of the case for India being thoroughly misjudged. These considerations, finally also comprise a brief review of matters or measures of general fiscal and financial

* *e.g.* in the Welby Commission on Indian Public Expenditure.

policy, which help to display the substance or reality of India's case as a whole; and these points also appear to be impracticable to string together in any other more appropriate or convenient place.

13. *Unique Character of this Enquiry.*—In holding this view of our Enquiry, its scope and purpose, we cannot, finally, overlook the fact that such an Enquiry is instituted, under the authority of the National Congress, for the first time in our history, and is intended to assist in a crucial decision at a critical moment in that history. At such a point, and in such circumstances, it would not be doing justice to the subject, nor to the generations yet unborn of this country, were the Enquiry to proceed on a narrow, restricted view of its scope and purpose, its guiding motive and ultimate objective; and omit from its purview items, considerations, or circumstances, which may materially influence the final judgment on the whole case.

III.—Method of Enquiry.

14. *Method of Treatment Adopted.*—Given this view of the scope and purpose of this Enquiry, and the interpretation of the Reference made, I have adopted the following treatment of the subject matter placed before the Committee. The next Chapter, Chapter II, takes in a group by itself, the aggregate of the transactions between the East India Company and the British Government; analyses their constituents so far as the material available permits; considers the fitness and propriety of charging India with these obligations; submits considerations by way of analogy bearing on the subject; and pronounces a considered opinion as to the equity of this class, indicating at the same time the right and proper method of apportioning the burden. Coming next to the Transactions resulting in the so-called Public Debt of this country, during the period that its government was directly under the British Crown, these have been divided into two main groups: (*a*) Of transactions, in the first place, considered in Chapter III, which have resulted, in net burdens without any assets of a materially productive nature to set off against the same. This is the sum total of what is called India's Unproductive Debt; and, (*b*) secondly, in Chapter IV, transactions which have resulted in the creation of productive assets, which may be said, in part at least, or indirectly, to bear their own burden by yielding an income, or by adding to the wealth of the country. This is the so-called Productive Debt. Each of these main groups is considered in its several component elements. These two Chapters are followed by another, Chapter V, dealing with those considerations of general policy or individual measures, which have resulted in definite additions of burdens to India, and which are urged as so many counter-claims, or mitigating circumstances, that may help in the ultimate apportionment as between India and England. This last is the concluding section for the body of the Report, and is followed only by Chapter VI summarising the findings, conclusions or recommendations, together with such general reflections as may not have found appropriate expression anywhere else.

IV.—India a Trust of the British Crown.

15. *Appropriateness of this Enquiry.*—The present is an appropriate occasion when the question of apportionment of liability between India and England can and ought to be raised. The moment is the more appropriate for such an investigation, because it is expected to bring about the transfer of effective power and responsibility in the governance of India from an alien bureaucracy to the children of the soil and their constitutional representatives. At such a moment of a turning point in our history, it is but right and proper that the authors

of the new constitution, the makers of the future India, should make an exhaustive enquiry as to the equity and propriety, as well as of the reality, of the obligations sought to be saddled upon India as a sort of legacy from its present rulers; and only those liabilities be accepted, which are found to be justly and properly chargeable against India. Since, from and after this settlement, a new entity is to be in possession of effective power and responsibility in India; and since the present rulers have themselves professed to be in possession of the governance of the country in the interests and for the welfare of the people, thereby constituting themselves to be *Trustees* for the people of India, it is but right and proper that, at the time when the Trustee retires from his trust, the Trust is dissolved, and the beneficiary under the Trust comes into his own, the Trustee's liability, if any, be determined and settled once for all, so that no subsequent and unlooked for claim be sprung upon him later on.*

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* The idea of India being held and governed by the British in Trust and for the welfare of India and the Indian people, is evident from a number of official pronouncements and documents, not to mention the utterances of responsible statesmen, including Ministers of the Crown. The following two passages are chosen, from among a wealth of such remarks, to support the contention that India is held and governed by the British, on their own professions, for the benefit of that country :—

The first is from the Proclamation of Queen Victoria in 1858, when the Government of India was transferred from the Company to the British Crown :—

"Whereas for divers weighty reasons, we have resolved. . . . . to take upon ourselves the government of the territories in India, heretofore administered *in trust* for us by the Honourable East India Company."

* * * *

"We *hold ourselves bound to the Natives of our Indian territories by the same obligations of duty* which bind us to all our other subjects, and those obligations, by the blessing of Almighty God, we shall faithfully and conscientiously fulfil.................................

"When by the blessing of Providence, internal tranquility shall be restored, it is our earnest desire to stimulate the peaceful industry of India, to promote works of public utility and improvement, and *to administer its government for the benefit of all our subjects resident therein. In their prosperity will be our strength; in their contentment our security; and in their gratitude our best reward.* And may the God of all power grant to us, and to those in authority under us, strength to carry out these our wishes for the good of our people."

The second is from the Preamble to the Government of India Act of 1919.

" Whereas it is the declared policy of Parliament to provide for the increasing association of Indians in every branch of Indian administration and for the gradual development of Self-Governing institutions with a view to the progressive realisation of Responsible Government in British India as an integral part of the Empire; and

" Whereas the time and manner of each advance can be determined only by Parliament upon *whom responsibility lies for the welfare and advancement of the Indian people.*"

(*Government of India Act,* 9 and 10 Geo. 5, ch. 101.)

These, it may be added, are not equal to a legal obligation created and maintained by a solemn Act of the Legislature, though the language of many a section in the several Acts relating to the Government of India may not unreasonably be interpreted to imply such a trust. The mere fact, however, that there is no express or legally enforceable trust created, does not preclude us from urging this political trust as an indispensable guide for the conduct of the governing race in its dealings with the governed. Not only has the policy of holding a trust been always professed by the British Sovereigns and Statesmen as regards India; but they have of late also joined the League of Nations and agreed to its Covenant, which lends further support to our contention. Article 22 of the Covenant, relating to the conduct of the League's Mandatories in the Mandated Territories, says :—

"To those colonies and territories, which, as a consequence of the late war, have ceased to be under the Sovereignty of the States which formerly governed them, and

16. *The Rights of the Beneficiary under a Trust.*—This is but fair to the Trustee. On the other hand, it is but fair to the beneficiary under the Trust, that the estate he is taking over is free, or freed, from those liabilities and encumbrances which the Trustee had no right to place upon it during the duration of the Trust, so as to enable the beneficiary to make a clean as well as a fresh start. The Indian people, who are virtually the beneficiaries under this Trust, can have no chance of a decent existence as a people, if at the very moment when they once more take their place in the roll of the world's civilised peoples, they are to be saddled and handicapped with unconscionable or inadmissible liabilities. It is the purpose of this Enquiry to ascertain such inadmissible or unconscionable liabilities; and to say which of them the Trustee should bear, before he can obtain a full and proper discharge from his responsibilities as Trustee; and which other the beneficiary might well be expected to undertake. Once the tie is dissolved and company parted, there would be no utility in making an Enquiry, or seeking to give effect to the recommendations as the result of such an Enquiry. And so it is, that at this turning point in our history, by mutual agreement and negotiation, and in a spirit of goodwill and amity, a Conference for the settlement of the Indian question is agreed to; and at the Conference matters like the one considered by the present Committee are agreed to be open to discussion and settlement. Hence the occasion for this Enquiry and hence the need to consider its subject matter fully, and give its findings or recommendations so clearly that the final negotiators or arbitrators might find no difficulty in giving effect to them.

17. *No other Course but Settlement by Negotiation Open.*—I lay so much emphasis on the uniqueness and importance of the present Enquiry, because every reasonable person must feel convinced there is no other means of settling this question of the financial obligations India is to bear in the future, except by such negotiations in such a Conference. Time has gone by when payment of all the debts incurred in the name of India *can* be exacted by force of arms. Public conscience of civilised humanity will not tolerate a bloody war affecting hundreds of millions of human beings, merely in quest of a stipulated pound of flesh, assuming the bond giving it to be valid. On the other hand, if, the Creditor cannot resort to force of arms, the Debtor—India—should not adopt the position becoming hers on a successful revolution. The reasons and circum-

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[*Continued from page 6.*

which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, *there should be applied the principle that the well-being and development of such peoples form a sacred trust of civilisation*, and that securities for the performance of this Trust should be embodied in this Covenant."

It is true the League of Nations came into being only a few years ago, while this question of the obligations cast upon India by the British Government are of a very long standing. That, however, does not preclude the principle enunciated in this Article of the League Covenant, which both India and England have signed, being applicable and effective, if even as an analogy, in the matter at issue, the more so as India has always been assured of Britain's being in India only as a Trustee. India is not quite so backward as the peoples of the mandated regions are presumed to be in this Article. But that also is only one more reason why India should claim and obtain the benefit of this doctrine of Britain's trusteeship in this country. For, if the government of a backward mandated tract is to be conducted as a sacred trust, what shall we say of the government of a people and country like India, whose governors have themselves solemnly declared and professed this Trust?

It is, we know, one thing to profess a Political Trusteeship, and other to enforce it, in all its legal consequences and implications. But the difficulty of translating into concrete forms the broad generalities of Political Trusteeship mentioned above could be easily obviated, given an atmosphere of mutual confidence, good faith, and the will to deal fairly. The settlement of the Indian question, not by the arbitrament of war, but by peaceful and friendly negotiations in a Round Table Conference, is just the occasion and the medium whereby can be effected the translation of a political trusteeship into concrete, legally intelligible, benefits and relations.

stances which have led to a situation, in which the entire problem of the future constitution of India is to be settled by negotiation, and not by the arbitrament of force on either side, are all clearly and radically distinguishable from a War of Independence of the type that brought about the United States of America, or a Revolution of the type which led to the setting up of the Sovietique Republic in Russia. The discussion, therefore, of the origin and character of these obligations, from the point of view of admitted international usage and convention, is absolutely necessary, not only to understand properly the real liability in respect of these obligations, but also to help facilitate the ultimate settlement and the negotiations leading to it.

V.—Peculiar Position of India at the Crossways

18. *Peculiarities in the Indian Situation making Consideration of this Subject Urgent.*—The consideration of India's Public Debt at this juncture is the more necessary because of two reasons : (*a*) There is impending, in the first place, a radical change in the government of this country, which must necessitate a corresponding modification in the rights and obligations of third parties, under the changed conditions. (*b*) Secondly, the peculiarities of the so-called Indian Public Debt must also be considered in assessing liability in respect of each class of that Debt.

19. *Constitutional and Structural Changes, now impending, render unthinkable Direct Succession and unbroken Continuity in Government.*—As

Change in—Status....a radical alteration.

regards the first the change impending is so considerable that it may be well argued that the future Swaraj or Dominion Government of India may be considered to be a new entity altogether. It is not merely the change in status that justifies such a contention, though the change from a mere dependency of England to a complete self-governing Dominion is, so far as India and the Indian people are concerned, a radical change indeed. It may be noted in passing at this stage that India has always been maintained as a separate, though a dependent, unit by England, all through the period of British rule or domination in this country. In so far, therefore, as the existence and recognition of India as a separate State is concerned, her identity may not be felt to be a new entity altogether, when the new constitution of a Dominion comes into being in this country. For the purposes of international existence, her position would no doubt remain practically unaffected, from the membership of the League of Nations, which she enjoys to-day, to the simplest treaty contracted in her behalf with foreign nations, until the same is altered by her government under the new constitution. But so far as the position of the Government of India is concerned, vis-a-vis the British Imperial Government and other Governments in the British Commonwealth of Nations, as well as with regard to third parties, the change from a dependent state to a fully autonomous Dominion,—virtually a sovereign state for all purposes of internal administration,—must be admitted to be fraught with radical consequences. For one thing, the subordinate dependent organisation could not urge against the supreme Imperial Government matters which the new government of a great autonomous Dominion, speaking with the full support of the united Indian Nation behind it, will most easily be able to urge. Further, more than the change in the status, is

Change in Structure and Composition still more radical.

the change in the structure and composition of the Government of India under the new constitution. If the principles of Federation and responsibility in the Centre, now accepted, are given effect to, the Government of future India will be a government of the whole country, including those parts and

territories, which, under the present Government of India, do not form part of the body, nor are they under their jurisdiction, strictly speaking. The new Dominion or Commonwealth Government of India, responsible to the people of India, will be speaking towards all other members of the British Commonwealth of Nations in a manner that the present alien bureaucracy in India can never command. The assumption of obligations of the kind we are here investigating, under such circumstances, without a careful and adequate scrutiny into the country's liability for the same on broad grounds of equity and propriety, would result in serious injustice to those members of the new Federal Indian State, who have hitherto remained apart, and would be a grave, though tacit, infringement of the indefeasible rights of the Indian people. Hence it is that the future Dominion of India may justly be regarded as a wholly new state, and so the scrutiny of the financial obligations incurred by the present Government of India, must be conducted in the interest of the united Indian Nation, from a standpoint which has been hitherto never been adopted by the present rulers of India.

20. *No continuity in Identity of India—as an International Unit or Person.*—The nature of this change in the status and structure of the Indian Government of the future amounts, it may be said, to a complete revolution, though of a peaceful nature. Under such a change, it is doubtful if the obligations incurred by the preceding Government of the territories known as India could, in the light of International Law and precedent applying to such cases, be charged upon the people of India under the new regime of federal self-Government. But even supposing that, despite those radical changes mentioned above, the future Government of India would only be a continuity and a successor, as it were, of the existing system of Government, the question is not free from doubt whether, merely in virtue of such successorship, the government of the future Dominion of India will *ipso-facto* be expected and required to assume, without question or cavil, all the obligations incurred by the present rulers of the country. There is a mass of well-known, though somewhat vague, authority for saying that the Indian Government under the changed conditions could not be expected, summarily and without investigation, to assume these obligations. International Jurists have maintained "that a succession of International Persons never takes place.* Their argument is that:

> "the rights and duties of an International Person disappear with the extinguished Person or become modified, according to the modifications an International person undergoes through losing part of its sovereignty."*

The general principle is clear in International Law: that no general succession takes place, so far as such radical mutations in the life of a state are concerned. Hence, if a state is extinguished, or, what is the same thing for the purposes of the present discussion, the Government of India is so changed as to become a totally different entity, politically as well as juridically, all the rights and duties of the present government disappear with it as a matter of course. This was the principle laid down, as a principle, in the Report of the Transvaal Concessions Commission, in the following words:—

> "It is clear that a State which has annexed another is not legally bound by any contracts made by the State which has ceased to exist."†

21. *Limits of the obligations in Political Successorship.*—It may be that certain rights, and particularly obligations, attaching definitely to certain specific

* Cp. Oppenheim's "International Law", Vol. I, Article 81, page 165, and the authorities there cited in note 1.

† See Parliamentary Papers, South Africa, 1901, Cmd. 623, page 7.

property or person, may be maintained under the changed system of government, without thereby necessarily implying the whole succession to all rights, as well as to all obligations, so far as the successor is concerned. It is, for example, generally agreed that peaceful succession may take place, and yet no continuity be maintained, with regard to the rights and duties of the extinct state, arising either from the latter's character as an International Person, or from its *political* treaties.

> "Treaties of alliances or of arbitration or of neutrality, or of any other political nature, fall to the ground with the extinction of the State which concluded them."*

says Oppenheim. But the same writer regards it as questionable whether treaties of commerce, extradition, and the like nature, made by the extinct State, remain valid. He adds that a majority of writers would quite correctly answer the question in the negative, "because such treaties, although non-political, possess some prominent political traits." Conventions regarding Debt etc. ought to fall under this group, except in so far as express stipulations of the new State clearly modify that principle. Again, it is generally agreed that a succession may take place as regards the property of an extinguished state and its public funds by the succeeding state. By a corollary from the same principle, it follows that the successor state would be bound to pay the debts, *so far at least as the property received from the preceding state would suffice.* It is quite clear, however, that the private creditor of an extinguished state acquires no right, under the International Law and usage, against the successor state. The reason is quite clear; the law and usage of International relations affect and govern the States as States. Private individuals have no claim in International Law and usage against the States under such conditions. If a private individual has any claim against a State, the claim must be considered only before the local tribunals of the State concerned; and before such tribunals the plea of an Act of State, urged in defence of such a claim against a State, in the absence of any express obligations specifically undertaken by the new state in regard to such claims, would be a sufficient answer. It may be that the claims of this kind from an individual, who is not a subject of the successor State, may be pressed upon the attention of that State by the Home State of such an individual. But this pressure can only be of a moral nature, and can have no legal effect, it is submitted, before an International tribunal. The Transvaal Concessions Commission's authority may be cited in this connection for affirming that all debts, for example, incurred for the prosecution of a war to fight against an attempt to subjugate the State subsequently annexed, cannot be taken over by the succeeding State.† The necessary implication of this proposition is that the subjugated and annexed State, like the Transvaal, cannot be charged with liability for the debt it may have incurred for fighting against the attempt to subjugate it, even though the fight has failed. The reason is that the State which fought against this attempt at subjugation has ceased to exist after the annexation; and since the new State,–the annexing State,–is not bound to take over the liabilities of the State annexed, incurred for the prosecution of the war against annexation, there is no party left to bear and discharge the burden of that liability. By the same reasoning, the annexed State cannot, obviously, be charged with the costs of the war of annexation waged by the annexing State.‡ They are regarded in the

* Op. Cit. page 166, Art. 82.

† Op. Cit. page 9.

‡ Cp. "*Empire to Commonwealth*" by W. P. Hall.

It may be added, however, that the Government succeeding in those regions after the Boer War, accepted and discharged all the notes etc. given by British *as well as Boer* officers in the field during the War, in respect of property taken or damage done to it. But this was an act of grace, not a matter of legal liabilities.

nature of *Dettes Odieuses*, and as such cannot be transferred by successorship. It is also interesting to add the authority of the Mixed Commission, appointed under the Treaty of Washington, 1871, for determining the liability with regard to debts and wrongful acts of the Southern States who had revolted against the Union. That Commission held :

> "That the United States of America were not internationally liable for the debts of the Confederacy, or for the acts of the Confederate forces."*

22. *No Obligation by Successorship on the future Indian Commonwealth.*—The thread of continuity in the Government of the United States, both before and after the Civil war, 1860–65, was far greater than is likely to remain in the Indian Government under the changed conditions now impending. On the authority of these conventions, usage, or precedents, therefore, the Indian Government of the future may well say that it would not assume, summarily and without question, the entire liability for the debts and obligations incurred by its predecessor, who had never consulted the Indian people in incurring these obligations, nor had it always used the proceeds of these obligations for the benefit of the Indian people. But of this argument we shall take further notice hereafter. Let us here add another argument of a cognate character, based on the recent precedents in the several Treaties relating to the treatment of national debts at the end of the last World War. As the result of these treaties there have happened serious and radical changes in states forming the comity of nations before the war, many of them now joined in a common membership in the League of Nations. When the treaties were being made, and the territorial re-distribution was taking place, the question as to the treatment of the pre-war debt of the dismembered states,—like the German or the Austro-Hungarian or the Ottoman Empire,—was a serious problem before the Conference of international statesmen engaged upon these treaties. Several new States were created from the old Austro-Hungarian, the Ottoman, and the German Empires. It would be manifestly unfair to keep the old Austria, for example, or the old Turkey, charged with the debt of the previous Empires of that name, merely because the name continues to be common, though the territory and resources have so radically been altered, and diminished. The Treaty of Peace with Germany provides that powers to which the parts of the German territory have been ceded should assume *pro rata* responsibility for the pre-war debt of the German Empire, as well as the pre-war debt of the German States, to which the said territory belonged. An Arbitration Treaty was made for a corresponding treatment of the Ottoman debt by arbitration in 1925. As, however, Germany herself in 1871† had annexed Alsace and Lorraine in 1871, without assuming any responsibility for a *pro rata* share of the French debt before 1870 chargeable to these territories, France was exempted by the Treaty of Versailles from assuming any part of the German pre-war debt *pro rata* chargeable to the re-ceded districts of Alsace and Lorraine.‡ As for

The Analogy of Post-war Treaties' Clauses concerning Public Debt.

*See Moore's "*Digest of International Law,*" Vol. I, Art. 22, page 60.

"It may be that a state voluntarily agrees to assume responsibility for damage done by revolutionary forces, as for example in the Treaty between Great Britain and Mexico in 1926, but in the case of United States against Mc. Rae, which was tried before English Courts in England, the defendant, a Confederate Agent in England, claimed to set off certain sums alleged to be due to him from the former Confederate Government. The Federal Government of the United States being unwilling to admit any liability for the acts of the Confederate Government declined to submit to any account being taken. Hence, they recovered in this case only such property as was there by Title Paramount, and they appear to have abandoned their claim based on succession. This was probably because they did not wish to prejudice their case for general exemption of liability for the debts and wrongs of the Confederate Government."

†Art. 254 Versailles Treaty.

‡Art. 255 Versailles Treaty.

Poland, that newly created state was exempted from liability for that part of the German pre-war debt which is attributable to measures of German colonisation of the Polish provinces.* Again, even before the World War, the United States had refused to take over from Spain a *pro rata* share of the Spanish Debt chargeable to Cuba, which was ceded to the United States in 1898, though Spain contended that she was not trying to transfer to the United States a proportional part of the debt of Spain herself, but only such debt as attached to the Island of Cuba. The United States refused to accept that argument by pointing out, that the debt in question was not incurred by Cuba but by Spain, and charged by Spain upon Cuba. †

23. *Applicability of foregoing to India.*—All these arguments and precedents evidently apply to the case of India. The so-called Public Debt of India is the creation exclusively of the British Indian Government, and not in any sense of the term of the Indian people. It has been made chargeable upon the revenues of India by Acts of Parliament, in enacting which the Indian people had no say, nor were Indian interests at all considered. The property or assets likely to be received as against these debts,—for which, if at all, the Government of the Indian Dominion may be said to be liable in virtue of successorship,—is not at all in proportion to the total demand in respect of these obligations, as would be more fully shown in subsequent sections. The practice, finally, of the British Government itself in this country, on the several occasions on which it has peacefully taken over or annexed territories of the Indian Princes, like the Maratha States, or Oudh, apart from annexations made as a result of a victorious war, is by no means in support of such an obligation of Successorship. The assumption of all the debts and obligations without question of the preceding Indian Government was never made by the Government of India under the Company, or under the Crown, as a matter of course. If at all such a liability was assumed, it was charged not upon the totality of their resources, but only upon the resources of the particular region in question. It may be that in individual instances, like that of Mysore, which was administered by the British on behalf of the Native Prince during a period of sequestration, the liability for debts of a State may have been assumed, only so far as the territories and the resources of that State permitted. This is quite different from assuming a general responsibility as an obligation of successorship, independent of whether or not the resources in revenue and property of the particular region concerned suffice for the purpose.‡

VI.—Peculiar Character of Indian "Public Debt" Obligation

24. *Indian Public Debt not specifically secured.*—Regarding the second reason given above, *viz.* the character of the Public Debt contracted in India, the actual contract in respect of the various kinds of bonds etc. is given in an appendix to this chapter. But here we may observe, as a characteristic bearing upon the present discussion, that practically the whole of the Indian Public Debt is charged, or attached, not on any specific property, asset or enterprise, but rests exclusively on the general goodwill and credit of the Indian Government. Apart from a few Railway Annuities,—which may, if any at all, be said to have been specifically connected with a given asset from which their burden of interest and principal

* Art. 255 Versailles Treaty.

† Moore's "Digest of International Law," Vol. I, Art. 97, pp. 351-85.

‡ The analogy of the debts of the Nabob of Arcot or the Rajah of Tanjore do not apply in this instance, as those were dealings between an Indian Prince and his private creditors, in which the British Government interfered for the protection of the creditors,—here their fellow-Europeans,—and not in the interests of the people of the States concerned.

redemption combined is to be met, there is no case, of either funded or floating Debt of the Government of India, which can be so connected with any particular source of income or any particular asset or enterprise. Even the debt which is commonly regarded as having been incurred on account of the Indian Railways or the Irrigation Canals, which are both taken to be productive assets, the form of the contract in regard to all these is not a special charge on these assets, on any particular railway or irrigation canal. In fact, there is no separate debt in respect of these. All indebtedness is expressed as a general obligation of the Government of India, charged upon the revenues of India, in many cases by the authority of an Act of Parliament. If the debt is charged only on the *Revenues of India*, it is a moot question if any interest on this debt can at all be paid, in the years of revenue deficit, lawfully; and whether any debt created because of the necessity of paying such interest when the revenues do not suffice for the purpose can at all be binding in law upon the Indian Government. The question as to what right the British Parliament has to make such a charge: and if made, what rights precisely the creditor gets under these enactments and contracts made thereunder, so as to enable him to hold liable for his claims any government which takes the place of the present Government of India in this country, is an exceedingly complicated one. But the complication goes far to prove that the assignment or chargeability, on the Indian people and their resources, in respect of these obligations, is by no means free from doubt.

25. *Indian Debt not Guaranteed by a Third Party.*—Again, the Indian "Public Debt" is, in no sense of the term, guaranteed by a third party. Though suggestions were made in the earlier period of the Government of India directly under the British Crown, for some kind of a guarantee being given by England,—if only to reduce the burden of interest payments in respect of these debts, and thereby securing the required funds on relatively more favourable terms,—the British Government has consistently refused to undertake any such responsibility.* The refusal was dictated by considerations of Britain's own interests, even though by so refusing, she has helped materially to increase the incidence of the burden upon the Indian people, while their government was conducted as a trust by the British Nation. But, once this fact of the absence of any third state's guarantee is noted, the question becomes quite clear. The obligations collectively called the Public Debt of India, are obligations, generally speaking, between the Government of India and private individuals. No other State is involved or concerned in their maintenance. Even those loans which have been taken from Indian Princes,—such as Holkar, Scindia and Bhopal,—for the purposes of Railway construction, have been treated by these rulers as made by them in their personal capacity to the British Government, and not as heads of their States. Hence in a question which is purely a matter between the Government of the country and its creditors, who are private individuals unsupported by any guarantee, and unable to claim any

* It is interesting to remark that, at the end of the Boer War, which had occasioned a burden on the British Exchequer of over £150 million, the British Parliament gave £3,000,000 under the Treaty of Veereeniging to facilitate the economic re-habilitation of the wasted Boer regions. Soon after, the process of re-habilitation being held up for want of capital, and the credit of the new colonies of the Transvaal and Orange Free State being very low, the British Parliament guaranteed a loan of £35,000,000 for the benefit of these regions. The grant of Self-Government to these territories helped them to overthrow British supremacy in less than 10 years after the War. Contrast this with India. The final struggle for India's independence—the so-called Mutiny—cost £40 million. Britain did not pay a single pie—as she had not paid a single farthing of the cost of conquering India. She even made India's distress an occasion for some petty savings to herself, in regard to the expenses of the British troops sent to fight the Mutiny. And, when Bright suggested in Parliament a British guarantee for Indian loans, the self-constituted Trustee of Indian interests refused. India nevertheless remained a field for British exploitation for over 70 years thereafter ! What a contrast !

specific property for the liquidation of their claims, intervention of a third party, in whatever shape, or under whatever pretext, cannot be admitted consistently with the self-respect of an autonomous state.

26. *Locus Standi of British Government in the final Settlement of the Question.*—If, therefore, this question is to be settled, as settled it will be, it can only be settled by peaceful negotiation and in a spirit of mutual goodwill and amity. There can be no question in such a settlement, and negotiations leading to it, of any demand for a summary assumption by India of liability in regard to these obligations from the Government of Great Britain; for the latter is in no way concerned or affected, juridically speaking, in these obligations exclusively by the Indian Government. This is a matter between the Government of India and its creditors. The British Government has no place in the dispute, except and only because there is to be an agreement to get this question settled by negotiation.

27. *Debt incurred without the consent or authority of the Indian People.*—As this debt has been incurred exclusively by executive acts of the Government of India, or under the authority of Acts of Parliament, it follows that the consent of the Indian people was never sought, nor their authority ever pledged, in respect of these obligations. In this connection it is useful to trace the various stages through which the constitution of the Government of India has passed, in so far as they are relevant to show the entire absence of control over the finances of India by the Indian people or their representatives, the consequent lack of their consent and authority in these obligations; and the resultant unfairness of calling upon them to bear that burden. The Government of India under the British regime has never effectively associated the Indian people in the concerns and obligations of Government. Speaking only of the Government of India under the Crown and confining ourselves only to the financial side of that Government, we find that the first Budget, in the modern sense, was presented in 1860 to the then Viceroy's Legislative Council, which was in no sense representative of the Indian people. Under the Indian Councils Act of 1861, by which a few Indians were nominated to the Council as additional members, the Council could not meet for any other than legislative business. It was not obligatory to present to it the Budget; and, if presented, no discussion on the budget was in order. The Budget itself was formally presented and explained to the Council only when some new financial legislation, such as an Income Tax Bill, became necessary to be passed by the Council. The discussion which followed had no relation to the merits of the Budget as a whole, nor could it refer to the financial transactions involved; but concerned itself only with the merits of the legislation proposed. Such were the powers accorded to a wholly nominated Council, in which the few Indians who were admitted owed their place to the grace of the Governor-General, and could not therefore say all they might have to say freely, even if they fully understood the measures under discussion in the Council. This state of things continued upto the Indian Councils Act of 1892, which introduced a few more Indian members by indirect election, without in any way disturbing the official majority. Under that Act as well, no discussion of the Budget as such was permissible, though an obligation was laid on the Government to explain the same. Though the members were allowed to offer observations upon it, they had no right to move any resolution or divide the Council on any part of the Budget or its financial proposals.* Under these conditions, it was no wonder that the discussion tended to be purely academic, and desultory at that. For the

*This, however, was the era during which the late Mr. Gokhale attained fame as the most trenchant critic of the Government's financial policy and measures, through his masterly speeches on the annual Budgets.

members, having no power to discuss and vote the Budget, used the occasion only to vent their general grievances against the administration as a whole. Under the Indian Councils Act of 1909, still more Indians were admitted by direct election; but even then without upsetting the official majority. Certain items of revenue expenditure were specified as open to discussion by the Council. The right to move Resolutions and divide the Council on these subjects was also conceded; but the Resolutions were purely of a recommendatory character. They had no practical value by way of effective direction or control over the Government, as the latter had a standing official majority in the Council with whose aid any inconvenient proposal could be easily turned down. Since the year 1920, further changes have been made in the machinery of the Government of India; but effective control of the country's finances still rests with the irresponsible executive. Public Expenditure has been split up into votable and non-votable items in the Central Government; but the votable items aggregate hardly 25 per cent. of the total net expenditure. In the Provinces, too, the same principle of distinguishing between votable and non-votable grants is made. The proportion of votable expenditure is apparently much greater in the Provincial than in the Central Budget. But the limitation added by way of distinction between Reserved and Transferred Subjects makes this concession of little practical utility. This fact, together with the power of restoration and certification of grants not voted by the Assembly or the Councils, vested in Governor-General and the Governors, have rendered practically nugatory the supposed transfer of control to the representatives of the Indian people over any substantial part of the expenditure of the revenues of India. Under the rules of business, moreover, proposals regarding new taxation or borrowing can originate only with the executive, so that the representatives of the people can at most have only a negative veto. Under these conditions, financial policies and transactions, and additions to the public debt as the result of those transactions, can scarcely be claimed to be binding on the Indian people, as having been made with their consent or by their authority. The moment the Indian people became at all conscious of these obligations incurred by their alien Government, they formally notified the parties concerned of their unwillingness to accept liability for the sum total of these obligations, unless and until the same were submitted for adjudication before an impartial, independent tribunal.

28. *Debt without Benefit to India.*—If the Indian people have been no party to these transactions, much less can it be said that the proceeds of these borrowings have been used for purposes of any benefit to them. It will be the task of the succeeding sections of this Report to pass in review these transactions, and consider what real benefit has, even without their consent or authority, been brought to the Indian people by means of these transactions. For the purposes of this section, however, the discussion may so far be anticipated as to say that the sum total of these alleged benefits is exceedingly thin. The liability, therefore, in connection with transactions in making which the Indian people were no party, and out of the proceeds of which they have received very little benefit, cannot, in justice and propriety, be summarily thrust upon the Indian people.

29. *Conclusion.*—It is, therefore, but fair that, at this juncture, when the two peoples stand face to face with each other for the purpose of negotiations and transfer of effective power and responsibility in the Government of India, that the question of financial liabilities be discussed and settled, with due regard to the justice and propriety of each claim, in a friendly conference.

APPENDIX TO CHAPTER I.

I.

Certificate of India £. 3. 10s. Per Cent Stock Not Redeemable until the 5th January 1931.

£......................

This is to certify that the Bearer of this Certificate is entitled to ....Pounds.

India £3. 10*s*. Per Cent Stock with the interest thereon payable quarterly created pursuant to Acts 42 and 43 Vic. Cap. 60 and 43 Vic. Cap. 10.

London.................

Chief Accountant,

BANK OF ENGLAND.

The Coupons attached to this certificate are payable at the Bank of England.

When the Coupons are exhausted this certificate will be exchanged on presentation at the Bank of England, for a new certificate with further coupons attached.

NOTE.—This, it will be noted, is only a certificate of title. It is not a specific contract of debt on behalf of India, charging any particular security or property for the regular fulfilment of the obligation implied in this Certificate. The question as to the right of the British Parliament to create such obligations on India—for no clearly traceable benefit of India; and the further question as to the security to the lender,—the holder of this bond,—are matters which are in no way satisfactorily answered by the text of the Bond, nor by the provisions of the Act concerned.

II.

3½ Per Cent Paper

The Governor General of India in Council does hereby acknowledge to have received from the Imperial Bank of India the sum of Government Rupees......... ....as a loan to the Secretary of State in Council for India, and does hereby promise, for and on behalf of the said Secretary of State in Council to repay the said loan, by paying the said sum of Government Rupees..........................to the said Imperial Bank of India or order, on demand, at the General Treasury at Fort William, after the expiration of 3 months notice of payment to be given by the Governor General of India in Council in the Government Gazette, and to pay the interest accruing on the said sum of Government Rupees .... from ....at the rate of 3½ per annum by half yearly payment at the General Treasury at Fort William, to the said Imperial Bank of India or order until the expiration of 3 months after such notice of payment as aforesaid, when the amount of interest due will be payable with the principal, and such

notice being considered as equivalent to a tender of payment at the period appointed for the discharge of this note all further interest shall cease.

NOTE.—This is an obligation, without any definite term, made by the Governor-General of India in Council on behalf of the Secretary of State in Council for India. This Minister of the British Crown is responsible, collectively with the whole British Government, to the British Parliament. As the latter had constituted itself a trustee for the Indian people by the implications of the Act for the Government of India in 1858, and by express declaration of the Queen's proclamation at the time of assuming charge of the Government of India, the Secretary of State may be regarded as agent for the Trustee. The question becomes then material whether the Trustee or his agent has exercised, in the transactions made in respect of the Trust estate, the same degree of caution or watchfulness for the interests of the real beneficiary of the trust; and so far as the ordinary degree of care required for the proper management of one's own interests cannot be established, the transaction, it is submitted, cannot be binding on the beneficiary under the trust, if the latter finds his real interests not sufficiently attended to. The obligation, it need hardly be added, is, in this case also, a purely personal bond, unsecured by any specific security definitely pledged or assigned to make good the claim in respect of this Bond. It is an obligation on behalf of the Secretary of State for India in Council without a definite period for redemption. When this entity,—the Secretary of State for India in Council,—ceases to be, could the obligation continue, when one party to it disappears altogether, and the other is unknown or constantly changing ?

III.

5 Per Cent. Loan 1945-1955.

(Free of Income Tax)

The Governor-General of India in Council hereby promises on behalf of the Secretary of State for India in Council to pay to.................................. or order at the General Treasury at Fort William on the 15th day of October 1955 or on such earlier date as may not less than three calendar months prior to its occurrence, be notified in the Gazette of India, but which the Governor General in Council undertakes shall not be before the 15th day of October 1945,

Rupees..................................

and to pay at the General Treasury above mentioned interest on such sum from the 15th day of October..................to the date on which the same shall become payable as aforesaid, at the rate of 5 per cent. per annum, such interest to be paid by equal half yearly payments on the 15th day of April and 15th day of October in every year.

NOTE.—This is an obligation or promise in all respects similar to the preceding, except that there is a definite period prescribed within which the loan must be redeemed, with a minimum term during which it cannot be redeemed. The obligation is further made free from the Income-Tax. The observations in respect of II apply in this case also.

IV.

Ten Year 6% Bonds 1931.

(Free of Income Tax.)

The Governor General of India in Council hereby promises on behalf of the Secretary of State for India in Council to pay to the.................or order at the General Treasury at Fort William on the 15th day of September 1931,

Rupees....................

and to pay at the General Treasury above mentioned interest on such sum from the 15th day of September.......................to the date on which the same shall become payable as aforesaid, at the rate of 6% per annum, such interest to be paid by equal half yearly payments on the 15th day of March and the 15th day of September in every year.

NOTE.—Same observations apply herein as in III, except that the Interest is higher, and the obligation is made absolutely redeemable on a prescribed date. These obligations, it may be added, are not even made an express charge on the Revenues of India, or on any other source.

V.

India Treasury Bill.

Rs..................

Due......................... Bombay.......................

This Treasury Bill entitles................................or order to payment of Rupees...at the Local Head Office of the Imperial Bank of India, Bombay, out of the revenues of the Government of India on the.........................day of.................19.....

Sd/-
Controller of the Currency.

For the Imperial Bank of India,

Sd/-......................
p. Dy. Secy. & Treasurer.

NOTE.—This is a certificate of title, given by Executive authority, by an act of the Controller of Currency. It is expressed to be charged on the revenues of India. No mention is made, however, of the legal authority under which this charge is created. The Imperial Bank of India is only an endorser—a Bank acting for its client the Government of India, and liable only so far as the client's funds placed in its charge are sufficient for the purpose. It is a general floating charge, redeemable on a prescribed date. The general observations in the preceding case apply in this instance, subject to the foregoing.

CHAPTER II

Transactions between the East India Company and the British Government.

The best method of dealing with the transactions between the East India Company and the British Government, which have resulted in financial obligations being imposed upon India, is to take the net result of those transactions as at the date at which the Government of India was transferred directly to the British Crown, and the East India Company ceased to exist as a governing body. As is explained below, the full weight of the legacy of financial obligations, charged upon India on the transfer of Government of India to the British Crown, was not felt at the date of the transfer. But, in spite of this limitation, no other alternative method will serve the purpose of the Committee's Enquiry, as the objections or difficulties in any alternative procedure would be simply innumerable.

II.—Difficulties and Complications in Accounts.

31. *Confusion between Commercial and Territorial Accounts.*—Amongst the difficulties which render impossible a full analysis of the financial transactions throughout the period of the Company's regime in India, resulting in the so-called Public Debt of India, the most considerable is that caused by the complications of commercial and territorial branches of the East India Company's operations, and their mutual debits and credits. These are so mutually complicated and involved that the student must give up all hope of disentangling these overlapping items of mutual credit and debit, and presenting a clear and distinct account in either branch of the Company's transactions. The East India Company was originally incorporated by a Royal Charter in 1600, to be only a commercial corporation, given a monopoly of trading with the so-called East Indies; and though a series of charters and enactments from that date onwards had tried to regulate the commercial side of the Company, no attempt was made until 1767 to attend to its territorial and political side. The first such attempt was made only in 1767, a more systematic regulation being made in 1773 and 1784, followed by the renewal of the Charter by a special Act of Parliament in 1793. These latter regulated both the commercial and territorial side of the Company's activities.

32. *Separation since 1814 between Commercial and Territorial Sides.*—Until the end of April 1814, though several Parliamentary enactments had attempted to regulate the business as well as the political fortunes of the Company, no distinction was enjoined to be made between the commercial and political or territorial branch of the Company's activities and the accounts relating to the same. From the day, therefore, that the Company acquired territorial possessions and particularly after 1765 when the Diwani of Bengal, Bihar and Orissa was granted by the Emperor of India to the Company, to the 1st of May 1814, though considerable sums were derived by way of territorial revenues as well as commercial profits, not to mention special and extraordinary exactions levied upon the Company's allies and dependants like the Nawabs of Bengal and Oudh, or the Raja of Benares, the accounts are so

confused by mutual credits and debits between the two sides that it is impossible to disentangle the items of the respective branches so as to exhibit them separately. And though from and after May 1st, 1814, under the Charter Act of 1813, the accounts of the two branches are required to be, and were, kept separate, their mutual credits and debits continue all the while that the Company's commercial activities last, with the result that the main confussion in the accounts to a student, studying them at this distance of time, is inevitable. The territorial revenues were subject to certain charges under the terms of the Act of 1813, and the surplus remaining after meeting these charges was made applicable to the commercial branch.*

33. *Confusion caused by Payments in Britain.*—Under Section 56 of the same Act, a sum was required annually to be issued in India for commercial investments or remittance to England, equal to the payments made from the commercial funds in England, on account of the territorial charges in the year preceding. According to the Report of the Commons' Committee of 1832 (Vol. II, Finance), from 1814-15 to 1826-27 the application of territorial funds to the purchase of the Company's investments for remittance averaged £2,028,000, of which £1,155,000 were applied to the purchase of Indian investments, and £873,000 to the investments in China. Whatever further sums were necessary were mainly derived from the profits of the China trade, and advances from these to the territorial account. On the other hand, under Sec. 57, the commercial profits of the Company and other receipts in England were required to be applied : (1) to the payment of Bills of Exchange, (2) to the current payment of other debts, except the Home Bond Debt, Interest, and commercial expenses, (3) to the payment of dividends, and (4) to the reduction of Indian debt or the Home Bond Debt. On account of these mutual payments and receipts, the account was never quite clear as between these two branches considered separately. All that the investigators at this time of the day can do in the matter is to take notice only of the net result, or the ultimate balance, as shown at the date of the Company's dissolution as a governing body, subject to such adjustments as the known facts of history at that date warrant.

34. *No Definite Method in Preparing Accounts.*—Another similar difficulty was concerned with the method of preparing actually the accounts and statements. All our data on the subject are to be found in the periodic investigations of the Parliamentary Committees in the affairs of the East India Company, notably those made before the passing of the Acts of 1784, 1793, 1813, 1833 and 1853. At the last but one renewal of the charter, in 1833, when all the trading rights and privileges were completely put an end to, exhaustive investigations were made into these accounts, and valuable appendices were added to the Report of the Committee, dealing with the finances and the trade of the company, from which are taken whatever specific figures have been mentioned below. The parties investigating were themselves keenly aware of this particular difficulty. A special investigator, who was a qualified accountant, was employed to prepare proper financial statements for the information

* Under Sec. 55 of the Act, the territorial revenues, after defraying the expenses of collection, were required to be applied, (1) to the maintenance of forces and forts and the provision of warlike and naval stores, (2) to the payment of interest on Indian debts including such portion of it as might be demanded in a bill on the Courts of Directors, to meet which provision was required at all times to be made by consignment or remittance to England, (3) to defraying expenses of civil and commercial establishments, (4) towards the liquidation of territorial debts or of the Bond Debt in England, or to such other purposes as the Court of Directors with the approval of the Board of Commissioners should direct. The operation of these provisions was the inevitable origin of the resulting confusion in the accounts. (Report of Parliamentary Committee of 1832, Vol. II.)

of the Parliamentary Committee in 1832. That investigator, Mr. Pennington, observes in his report:

"All the statements which have been drawn out with a view to an enquiry into the relative position of the two branches of the Company's affairs, antecedently to the commencement of the present Charter, differ materially from each other, as well in point of principle as in their details and results, and show the extreme difficulty, *or rather the impossibility* (Italics ours), of arriving at any certain conclusion upon a point of which the accounts, whence the statements are drawn, do not afford either the perfect illustration or the proof."*

35. *No Distinction between Capital and Revenue Accounts.*—The fact that there was no distinction rigidly and consistently maintained between what may be regarded as revenue items proper, and what may be called capital transactions, accounted for another source of confusion and complication. For example, loans received from time to time from the Nawab of Oudh were treated as current income, even though these moneys in reality were in the nature of debts, and ought to have been regarded more correctly as capital transactions. The fact that part of these loans were wiped off by cessions of territory or other such arrangements at a subsequent date, does not the less make for confusion and complications.† The result was that the confusion began steadily to grow, till the first Finance Member of the new Government of India under the Crown in his very first Budget speech could say, on a general review of the Company's finances in the past sixty or seventy years, that the finances were in a state of choronic deficit. ‡

36. *Difference in Points of View.*—The view-point, moreover, from which these statements were prepared also differed, and consequently the figures show the difference, even when relating to the same years and to the same class of items. The accounts submitted by the Indian authorities to the Courts of Directors in England were re-edited by the latter body for presentment to Parliament, ever since it became compulsory on them to lay these accounts before that body, from a standpoint totally different from that which had actuated the Indian authorities in preparing their accounts for submission to the Court of Directors. The confusion, therefore, becomes still more profound and all pervading.

37. *Confusion caused by Mutual Claims.*—The existence, further, of mutual claims between the Government of India and the British Government, for work done respectively for one another, also occasioned additional confusion. For example, the Company's Directors had been insisting for a long while on certain items, the cost of which they had borne in the first instance, as being chargeable not to India but to England, aggregating something like 11¼ million pounds, as detailed below. There were many similar items between the East India Company and the British Government, the dispute over which, however, decided finally, could not but add to the confusion in the accounts, and render their careful analysis impossible, so long as the dispute continued.

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* Commons' Committee, 1832, Finance, App. No. 2, Mr. Pennington's Report.

† For the Maratha and Pindhari wars during his regime, the Marquis of Hastings had obtained a loan of 2 crores from the Nawab of Oudh, in 1816, which was partially liquidated in 1831 (?) by the transfer or cession to the Nawab of the District of Khyraghur obtained from Nawab in 1815. This was treated as current income.

Balance due on former Account for Ceylon and the Eastern Islands,	1st March 1808	£1,020,184
Eastern Islands ...	For the expenses on account of these Islands, in consequence of their capture in 1795-6, from 1806-7 to 1819-20	219,004
Ceylon ...	For Supplies from India to that Settlement, and Expenses in England for Tonnage, etc., etc., after deducting the value of cinnamom received, 1807-8 to 1819-20 ...	485,121
Cape of Good Hope ...	For Supplies etc. 1806 to 1808, and 1819-20	91,043
Stores to His Majesty's ships in India.	For Supplies etc. from 1806-7 to 1818-19	199,967
Expedition to the French Islands.	For Supplies, Expenses, Bills drawn, etc. 1809-10 to 1819-20 ...	3,432,826
Expedition to Java ...	For Supplies, Expenses, and Bills drawn, etc. 1810-11 to 1817-18 ..	4,061,663
Expedition to the Moluccas...	For Supplies, Expenses, and Bills drawn after giving credit for Spices received from 1813 to 1821 ...	91,921
Diplomatic Expense incurred in Persia.	From 1811 to 1817	171,975
Advances for the Naval Service of Government of India.	Advances from 1811-12 to 1816-17	183,945
Extra Expenses at St. Helena	From October 1815 to 30th April 1821	950,927
Expense of Building Ships of War in India for the Public.	From 1806-7 to 1818 ...	220,671
Micellaneous Disbursement...	On Sundry Accounts	148,521
	Total ...	£11,277,828*

38. *Difficulty of Varying Exchange.*—Added to this was the great difficulty caused by a varying rate of exchange. The revenues from India were derived in Rupees, which themselves varied as between Madras and Bombay, in their respective exchange values expressed in sterling. The variation in the aggregate from day to day in the exchange rates realised on either side of the account, was very considerable. The exchange variations continued throughout this period, though the degree of this variation is modified in the last decade or two of the period under review, and kept within more reasonable limits. So far, however, as the accounts are concerned, complication created by this peculiarity is undeniable; and renders the attempted analysis after such a lapse of time practically impossible.

* This is by no means an exhaustive list of the expenses incurred by the Government in India on account and at the behest of the British Government in England, which the Directors claimed should be refunded to India. The dispute regarding the items in the list above was settled by arbitration in 1822.

III.—Aggregate of the burden of Debt left by the Company to India.

39. *Net Result Taken at Given Date.*—Given these difficulties and complications, we must take the aggregate figure as representing, not the full and real burden imposed upon India all throughout the period of the Company's domination, and as the result thereto, but only the net effect and the final balance at the time of the Company's cessation as a governing body. For, that portion of the burden, which has been met or discharged during the period under review, naturally does not come in the aggregate figure, as shown to be outstanding at the time of the transfer of the Government to the British Crown. Even so, that aggregate does not represent the real burden of the Company's debt to India owing to the omissions of the undermentioned items from the account as shown to be outstanding at the date, The charge of the Company's annuities at £10-10 per £100 of stock on a capital stock of 12 million pounds, or £6,30,000 per annum; which before 1833 used to be regarded as the Company's dividend on their capital stock, and which under the Act of 1833 was charged on the revenues of India as the annuity to be paid to the Company's proprietors,—was, under the terms of the Act of 1858,* continued to be paid until 1874. It was also in this year, 1874, that the Company's stock was finally due for redemption under the provisions of the Act of 1833.† The amount paid by way of annuity, between 1858 and 1874, was thus, necessarily, a charge that could not be included in the figure of the Company's debt charged upon the Government of India at the date of the transfer. Similarly, the payment for redemption of the capital stock,—which had also been required to be made under the Act of 1833, but which was not in fact regularly made as there required, owing to the other exigencies occurring,—was assumed to be made until the date of the final redemption, *viz.*, 1874, at which date the amount fell short by roughly 4½ million sterling.‡ This figure was then added to the public Debt of India, and the Company's stock finally redeemed. Between them, these two items on account of the Company's stock redemption and dividend, would aggregate in round terms 14½ million pounds.§ Secondly, the cost of the so-called Mutiny was not all brought to account at the date of the transfer to the Crown. This cost has been estimated by the first Finance Member of the Government of India at 38 million pounds in round terms.¶ But this represents only the

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* S. 42 of 21 & 22 Vic. C. 106.

† S. 12 of 3 & 4 Wm. IV C. 85.

‡ The exact figure was £4,579,416. See Welby Commission Report, para 118.

§ The exact figure would be £10,080,000 plus £4,579,416 or £14,659,416.

¶ " Well, Sir, on the 30th April 1857, just before the Mutiny commenced, the capital of public Debt in India was £55,546,652 and in England it was £3,894,400, and the interest payable upon the whole was £2,525,375. Sir, I need not trouble you by quoting the intermediate year; but on the 30th of April this year (1860), indeed at the present moment, the debt in India has been increased to a sum of £71,202,807 and in London to a sum of £26,649,000, making altogether £97,881,807 and the annual charge on both is now making £4,461,029. Thus in three years, the debt of India has increased by no less a sum than £38,410,755, involving an annual increase of interest £1,935,554. Sir, I am fearful of wearing you with these details; but they involve great facts, which must be understood. We have not been engaged in any foreign war; we have not had to defend ourselves from foreign aggression; we ourselves have attempted no war of conquest; *the Mutiny alone has produced this result.* Sir, it cannot be too widely known throughout India that the late Mutiny has cost the Indian public, I say the Indian public, for I cannot separate them from the Indian Exchequer, and also because sooner or later the pressure must fall upon them in one shape or another. Sir, it cannot be too widely made known that the late Mutiny has cost the people of India, in a direct public charge, independent of all other losses and sacrifices, the sum of £38,410,755, and has incurred an annual charge in respect of it of no less than £1,935,654, for, I fear, many years to come."

James Wilson's Budget Speech on Feb. 18, 1860.

actual deficits in the current revenues of the Government of India caused by the revolt of 1857-58. That portion, however, of the charges in connection with this rising, which was paid out of current revenues, naturally does not form a part of this amount; and we would not be far from the accurate figure, if we take the total cost of putting down the rising, and of reconquering India for the Crown at 40 million pounds. Thirdly, miscellaneous items, too numerous and too confused to be specially stated, like part of those war costs which were paid out of current revenues but which indirectly imposed burdens, as will be shown more fully hereafter, were also not included in the abovementioned figure. Accordingly, the total figure must be taken subject to these additions. The best way, perhaps, would be to take the debt as outstanding before the outbreak of the so-called Indian Mutiny, and add to that the amount of the dividend paid for the ensuing period of 16 years, plus the deficit in the Redemption Fund for paying off the proprietors of the East India Company, and the cost of putting down the Mutiny. The aggregate of all this would amount to £112,511,222, as follows:—

Debt on the 1st of April 1857	£ 59,441,052
Debt caused by payment of Company's annuity and Capital Stock Redemption	£ 14,659,416
Debt directly due to the suppression of the rising of 1857 ...	£ 38,410,755
Net Total ...	£ 112,511,223

IV.—A general review of the Company's Finances.

40. *Review of Company's Finance.*—In order to give a fuller understanding of the origin and growth of the Company's debt in India and in England, which was eventually charged upon the people of India when the government of the country was transferred to the British Crown, we may here append a brief review of the Company's finances during all the period that the Government of the country was in their hands.

41. *Historical Summary.*—The Company was a trading corporation, and remained such from the day of its inception in 1600 to 1744 in fact, and to 1767 as acknowledged by the laws and charters governing it. Its trading capital was originally £. 2,000,000, but was afterwards increased under the authority of successive Acts of Parliament as follows :—

Original capital	£ 2,000,000.
Increased in 1708 by	„ 1,200,000.
„ „ 1786 „	„ 800,000.
„ „ 1789 „	„ 1,000,000.
„ „ 1794 „	„ 1,000,000.
Total ...	£ 6,000,000.*

* Some of the portions of this capital were raised at rates far exceeding their nominal amount. The sum actually subscribed in 1792 was £2,027,295, and the whole amount which has been paid into the Company's treasury for capital stock is £7,780,000. Legislative enactment respecting territorial possessions of the Company commenced in 1767, when it was agreed that in consideration of an annual payment of £400,000, by the Company to the British exchequer, the large territorial possessions which had been recently obtained in India should remain in the possession of the Company for a term of two years. This term was afterwards extended to five years more from 1st February 1769, and the sum paid to the public under these Acts amounted in 1775 to £ 2,169,398-18-2. (See Report of the Parliamentary Committee, 1832, Vol. II, Finance and Accounts.)

42. *Growth of Company's Debt.*—From 1767 to 1814, though various Acts of Parliament had tried to regulate the affairs of the Company, the two sides of the Company's business, territorial and commercial, were, as already remarked, kept in no way distinct and separate. The result is an endless confusion, which, despite the existence of accounts as given in the Parliamentary Committee's Reports of 1810-12, it is impossible clearly to explain. The accounts as given there, for example, show from 1792-93 to 1813-14, the total receipts in India of £274,833,312, while the territorial charges aggregate £264,297,255, leaving a net surplus in India of £10,536,057. This was a period, it may be added, of some of the greatest wars waged by the Company, including the wars with Tipoo of Mysore, with the Marathas and expeditions to Ceylon and Egypt under Lord Wellesley, and to Java under Lord Minto. Notwithstanding the charges of these expeditions, which in the first instance were paid for by India, and which, according to the ideas even then accepted, were claimed by the Directors as refundable to India, since these expeditions were for British Imperial reasons; the accession of new territory and the receipt of large war indemnities in cash, together with the system of subsidiary alliances made during this period with the Indian States by the Company's government, the whole cost of all these wars in India was largely met from the existing resources of the Company in India and the accessions made to them by the annexations of new territories as the result of these wars. Nevertheless, in spite of a revenue surplus as shown above, the debt of the Company *in India*, amounted in 1814 to Sicca Rs. 21,39,92,502, which, converted at the then accepted rate of exchange of 2*s*. per rupee, would yield £21,399,250*. In addition to the debt of the Company in England, part of the explanation of this situation was the existence of the Company's commercial losses, and payment of a heavy dividend, notwithstanding the absence of any profit to correspond. The note subjoined outlines some of the outstanding peculiarities of the Dividend declarations by the Company, which will serve to show how, in spite of ordinary revenue surpluses, the Company's financial position was on the whole always adverse.†

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*The following remarks of the historian James Mill (Vol. VII, Bk. I. ch. 7, p. 347) are interesting : "In 1792, the Indian Debt bearing interest, little exceeded seven million sterling...... In 1799 the whole Debt had risen to ten millions ; and in the short interval of five years the season of Lord Wellesley's conquests, it was more than doubled, amounting in 1805 to nearly twentyone millions with an annual interest of £1,791,000 ; during the two following years, the continued effects of previous prodigality were still felt, and the Debt went on increasing ; so that in 1807, it amounted to more than twenty-six millions, bearing an interest of £228,000. In 1813-14, the amount of Debt remained much the same, being twentyseven millions ; but the interest amounted to £1,636,000 being a permanent diminution annually of £592,000. This was effected by the successful opening of loans in August and December 1810, at an interest of 6% (as against the average rate of 8⅝% before) to which the whole of the outstanding obligations were transferred."

†It may be interesting to recapitulate in brief the history of the Company's declarations of dividend, mostly paid out of borrowed money. The imagination of the proprietors was excited from and after 1765, when the stream of the Company's servants returning with huge fortunes from India made itself felt in the public life of England. The proprietors argued that if the servants could so enrich themselves, why should not they, the masters of the whole concern, have a share in these fabulous and seemingly inexhaustible sources of riches. In 1766, therefore, they desired to raise their dividend, which had till then been at six per cent. to ten per cent at a bound, and the knowledge of this intention sent up the prices of the India stock like a rocket. In vain did the Directors represent to the proprietors the heavy debts of the Company, which made it criminally imprudent for them to declare any dividends when the Company was borrowing money at a heavy interest. In vain did they point out that if higher dividends were paid, they would have to be met from such borrowed funds.

The attention of Parliament was therefore aroused, and a Committee of the House of Commons was appointed in 1766 for the purpose of enquiring into the Company's state of affairs. The question of the right of sovereignty in the territories acquired by the Company was debated, and it was maintained that the *Company as a subject of the British Crown could*

43. *Company's Dividend paid out of Borrowed Sums.*—The payment of the Company's dividend, at varying rates determined at the fancy of the proprietors until Parliament fixed the charge by the Charter Act of 1813, was amongst the most potent causes of the ceaseless additions to the debt of India. War charges, and a heavy military expenditure made in consequence of these wars, was another of these factors tending towards the same end of burdening India. Though, as is pointed out hereafter, the inland wars of the Company on the Continent of India were made to pay their own extra charges by territorial gains and cash indemnities, the extra-Indian wars, such as those in Afghanistan and Burma, brought not even that compensation to India. Their costs were heavy, and they were incurred exclusively in the prosecution of British Imperialist designs. The general extravagance in civil and military expenditure in India was the third of these factors leading to deficit in ordinary revenue, and thence to debt.

44. *Revenue and Expenditure 1814-15 to 1833-34.*—In the period which follows from 1814 to 1834, the Company's territorial and commercial accounts were required to be separate and kept distinct one from the other. On the purely territorial side, the aggregate of receipts for 20 years were £405,908,479, and the aggregate of territorial charges in India were £396,848,837, leaving a net surplus on Indian account of £9,059,642. If to that we add the Home Charges of the Government in India, the surplus is converted into a deficit of £18,274,863. These Home Charges included the following items:—

(1) Payments made on account of passage of military.

(2) Pay to Officers, including off-reckonings.

[*Continued from page 25.*

not acquire territories except as an agent for the Crown. As the result of this discussion, an Act was passed in 1767, by which it was provided that dividends could be voted, after June 1767, only in a general Court summoned expressly for that purpose, and that no dividend above ten per cent for the year should be made before the next session of the Parliament. The right was also claimed and established for Parliament, by the same Act, to control and command the Company in the distribution of their own moneys. The question of sovereignty was not pushed at that time to a direct and express decision, though the decision was virtually involved in another Act of 1769, by which the Company was allowed to retain possession of the territorries on consideration of paying £400,000 in the public Exchequer per annum; and even the possession was granted them for two years.

The financial position of the Company as reviewed in 1773 showed a balance sheet which valued all their effects and credits in London at £7,784,689-12-10, and the whole of debts and liabilities aggregated £9,219,114-12-6, leaving a balance *against* the Company of £1,434,424-19-8. While all their assets and credits in India, China and St. Helena, and afloat on sea, amounted to £6,397,299-10-6, the whole of their liabilities abroad amounted to £2,032,306, producing a balance *in their favour* of £4,364,993-10-6; deducting from this sum the balance against the Company in England, the whole of their available property at this day was not more than £2,930,568 10-10, so that of their capital stock of £4200,000, and £1,269,431-9-2 was expended and gone.

(Second Report of the Committee of Secrecy in 1,773.)

In this valuation of the Company's assets was included a fantastic figure for their buildings and fortifications in India; but on that the Parliamentary Committee observed:—

"They have not included in the above account any valuation of the fortifications and the buildings of the Company abroad. They can by no means agree in opinion with the Court of Directors, 'That the amount of the fortifications etc. should be added to the annual statement.' Undoubtedly no assets of any party can be compared with his debts further than they can be disposed of for the payment of those debts; the manure which a farmer has spread upon his fields, or the hedges and ditches with which he has surrounded them, are nothing to him, the moment his lease expires. The money expended in fortifications and buildings, from May 1757, was stated at nearly four millions." (*Mill's History, Book IV, Chapter IX, page 359.*)

From and after this date, the Company's dividend was frequently declared and paid out of borrowed money, and a correct exhibition of the Company's balance sheet at each of the successive dates, when the Charter was renewed, would hardly ever show a credit balance due to he Company, if strict principles of accounting for the stock and assets had been applied.

(3) Political freight and demurrage ;

(4) Pay-office demands for King's troops ;

(5) Civil, superannuation and absentee allowances ;

(6) Political charges generally, including the proportion of charge for the establishments at the India House, Board of Control, Haileybury, Addiscombe, Chatham, etc.

(7) Miscellaneous expenses on account of the Prince of Wales' Island, Singapore, etc., territorial stores ; charges at St. Helena ; advance to public Institutions repayable in India, etc.*

45. *Company's Finances since 1814.*—The justice of charging some of these items on the Indian Exchequer may be questioned, particularly as it included grants and pensions made to Civil and Military officers who had distinguished themselves in India in wars and exploitations of a British Imperial, rather than a purely Indian, character. † When we remember that this is a period of the most considerable wars, including the final struggle with the Marathas in 1818, the wars with Nepal 1813–14, with the Pindaris 1814–15, with Burma 1824–26 costing alone thirteen crores of Rupees,‡ and the siege of Bharatpur, we cannot feel surprised at these additions to the debt, which, at the end of the Company's commercial monopoly stood at £41,353,952. After the close of the Burmese War, during the regime of Lord William Bentinck, considerable economies were ordered in the current expenses of Government, both on the Civil and Military side ; and these were expected to amount, on the Civil side to an immediate reduction of 28,09,270 Sicca Rupees, and with prospective reduction of Sicca Rupees 18,16,805, or a total of Sicca Rupees 46,26,075 per annum ; while on the Military side the aggregate of the amount of reduction ordered to take effect at once was estimated at Sicca Rupees 1,09,13,837 per annum. § These reductions did succeed in paying off some portion of the Company's debt, which was reduced from £41,350,952 to £33,980,893 on the eve of the Afghan war.

* See Appendix to the Report of the Commons' Committee of 1832, Finance.

According to the Report of the Common's Committee of 1832, the total Indian revenues between 1814-15 and 1829-30 were :—

Indian Revenues ...	£309,151,920	Brought forward Total ...	£311,083,400
Subordinate Settlements	821,505	Deduct : Indian Territorial charges.	299,847,509
Sum received from Oudh as loan but later exchanged for territory ...	1,109,975	Net surplus ...	£11,235,891
Total	311,083,400	Charges defrayed by India for P. W. Islands, Singapore, Malacca, St. Helena etc.	4, 470,162
			6,765,729

There was thus a net territorial surplus of over 6¾ million sterling.

† A pension of £4000 per annum was made to Warren Hastings from 1789 for 28 years ; a grant of pensions was also made to several commanding officers in the Nepal and Maratha Wars. These were all charged on India. A loan without interest was made to Warren Hastings of £50,000 to enable him to meet the embarrassments caused by the legal expenses of his defence against the Impeachment in Parliament, also charged on India.

‡ The Report of the Committee of 1832, Finance and Accounts, observes: "The large and unprecedented expenditure which was incurred in the prosecution of the war with the Burman Empire, and the reduction of the fortress of Bharatpore, occasioned a rapid increase in the registered debt of Bengal from the year 1824-1825 to 1827-8. In this period the net increase of debt was £13,007,823."

§ See Appendix 7 to the Parliamentary Committee's Report, Vol. II, Finance, page 174, et seq.

46. *Growth of Debt after 1833.*—But the spirit of economy was short lived; and the irresistible tendency of the Indian Government to be extravagant, improvident, and aggressive asserted itself after this brief spell of economy. The twenty years which ended with the Company's governing powers in 1858, were the years of the Afghan, Sindh, Sikh, Burma and China wars, costing in the aggregate at least 20 crores, and of which the Afghan war alone cost 15 crores. Though the revenues in this period amounted in the aggregate to £606,576,989, the steady drain occasioned by the Home charges, averaging £3 Million a year, added to the cost of these wars and expeditions, necessarily resulted in heavy additions to the debt.

47. *Capital Arrangements of 1833.*—The Company's commercial privileges were abolished by the Charter Act of 1833. In consideration of their surrender of all their commercial as well as territorial assets, the territorial revenues of India were charged with the payment of a dividend at 10½ per cent. per annum, aggregating £630,000 on the Company's stock.* The appropriation of the whole of the Company's assets to the territorial branch from and after 1834, in consideration of a grant of an annuity secured upon the revenues of the Indian possessions, brought no corresponding benefit to India. As the historian Mill observes:

* The Company's commercial assets, according to the calculations made in that regard by the Company's Directors for submission to Parliament in 1832, amounted as follows:—

Cash at Home and Abroad and appropriated in the public funds ...		£2,186,000
Goods and Merchandise at Home and Abroad		7,384,000
Property afloat and freight		3,532,000
Debts due to the Company at Home and Abroad		2,227,000
Buildings and dead stock		1,468,000
East India Annuities		1,208,000
Due from Territory		4,332,000
		£22,637,000
	Deduct Debts ...	1,534,000
	Net	£21,103,000
Deduct further as questionable :—		
1. Debt due by Territory	£. 4,632,000	
2. Bond Debts	3,796,000	8,428,000
	Net assets remaining	£12,675,000

Making the deductions above shown, the indisputable balance of net assets belonging to the commercial side of the Company may be admitted to have amounted to £12,675,000. More than 11 million of these were actually realised and applied to the general expenses of the Indian territory between 1834 and 1849.

"If the claims upon the territorial revenues were admitted, the principle as stated by the Court, was amply sufficient for that object. And this was acknowledged by the Minister; but it was objected that the property claimed by the Company was exposed to many doubts and questions, both as to the total amount and the nature of its component parts; and was further supposed to be subject to heavy liabilities. In fact, it was a matter of great uncertainty, whether the whole of the Company's commercial property was not legally responsible for those debts and engagements which had been contracted in the Company's name for political and territorial purposes; and whether it would not continue so responsible even although the Company should be wholly deprived of their political powers and functions." *Mill's History, Chap. IX, Vol. IX, page 347.*

"Regarding the assets of the Company and the valuation to be placed upon the same, it must be realised that the goods and effects belonging to a corporation like the East India Company must be regarded as necessary for the immediate movements of their machinery, and intended for immediate consumption; and accordingly inappropriate to be valued at anything considerable; since if any part of them is taken away, it must be immediately replaced, and cannot form part of a fund available to any other purpose without diminishing some other fund to an equal degree. The East India Company, however, departed from this salutary rule, and

"The territory gained no advantage; as, although it was relieved of a part of its liabilities, it was burthened with a very heavy annual payment of perhaps rather more than equal amount; and the commerce reaped no benefit, as they were offered only an annuity for a term of years, in place of an amount of capital yielding a larger income for ever. The arrangement consulted the benefit of neither party, and will probably be ultimately productive of embarrassment to both. The provision of a guarantee fund enforced by the perseverance of the Directors may remedy a part of the inconvenience; but the amount of the principal set apart was evidently insufficient. To most persons it would have seemed to be the simpler and honester process to have suffered the Company to realise and divide their capital as far as their means extended, any surplus being applied as legally applicable to the discharge of territorial debts. The only reason assigned by the President of the Board of Control for not following this course was the proposed continuance of the Government of India to the Company upon the principle of their being connected with the country by a pecuniary interest."

[*Continued from page* 28.

regularly submitted a statement of assets as counterbalancing its debts. The procedure however was objectionable for another reason, because according to the mode in which the statement was prepared, it might exhibit at pleasure either a great or a small amount. **Some of the principal articles have hardly any marketable value; could produce little if the Company were left to dispose of them to the best advantage; yet the resolutions of the Company assigned to them any value which seemed best calculated to answer their designs.** Houses, for example, warehouses, forts and other buildings, with their furniture, stated as large articles, set down at several times the value, probably, at which they would sell. Debts due to the Company and arrears of tributes formed another material ingredient, of which a great proportion is past recovery. A specimen of the mode in which the account of the assets is made up may be seen in the following fact, that £1,733,328, as due by the public for the expedition to Egypt was continued in Bengal Account as an asset, *after* the expenses had been liquidated in England; and upwards of two millions due to the Company by the Nabob of Arcot and Rajah of Tanjore is continued in the Madras Account as an asset, though virtually diminished and extinguished upon assuming the territory of Carnatik."

N. B.—The Parliamentary Committee on that occasion, 1812, on a very slight examination of the assets reduced the valuation to half so far as assets in India were concerned. They did not show even that much scrutiny for valuing the assets of the Company in England in 1812.

(See the Third Report of the Committee of 1810, page 368, Appendix No. 2. Taken from Mill's Book VI, Chap. XIII page 474).

The Territorial Assets of the Company in England and abroad in 1829 were represented in the Parliamentary Committee's Report of 1832 (Finance and Accounts Vol. II) as follows :—

Cash and Bills abroad ...	... £7,367,296	
,, with officers at India House ...	3,670	
		7,370,966
Advances made in England to public institutions, to be repaid in India ...		87,429
Stores in India (Salt, opium etc.) ...	... 6,922,217	
,, for consignment to India ...	473,556	
		7,395,773
Debts due in India including revenue arrears		8,748,064
Carnatic stock		34,037
Balance due from H. M.'s Government ...		98,432
Value of Haileybury and Addiscombe ...		177,220
Dead Stock in India		400,000
Total ...		£ 24,338,070

The net total of both Commercial and Territorial Assets £37,013,070.

48. *Absence of Sound Principles in Account-Keeping.*—It may be observed, in concluding the review of the commercial side of the Company, that though it was admittedly a commercial body, its accounts were never kept with the minimum of attention and foresight necessary for sound financial management of a business concern. The Company had, during its career, ample resources in commerce as well as in territorial possessions. Yet it built up no reserve fund and provided no Depreciation account against its wasting or doubtful assets. Hence it was that, on the eve of its ceasing to be a commercial body, it had little realisable assets which could secure to it self-liquidated and adequate compensation on its capital stock, without charging unfairly the Revenues of India.

49. *Review of the Territorial Finance.*—In the years which followed the Charter Act of 1833, the Company had no commercial privilege at all, nor any trading operations. These were years of wars and annexations exclusively for political reasons. The disastrous Afghan war cost fifteen crores of rupees. The Sikh wars of 1846-47 resulting in the annexations of the Punjab as well as the exaction of a heavy indemnity in cash, in addition to the cession of considerable territory at the end of the first war; the second Burmese War, costing a million sterling, resulting in the annexation of lower Burma, which made a very considerable charge upon India for its ordinary administration; and the peaceful annexation of Oudh, Satara, Nagpur, and Jhansi under the Doctrine of Lapse, paved the way for that active discontent and disaffection, which broke out in the rising of 1857, and led to the final abolition of the Company's rule. These were also years of heavy deficit, so that the first Finance Minister, reviewing the finances of India from 1814 to the end of the Company's regime could say* :—

"Sir, I hold in my hand a return showing the deficits and surpluses of Indian revenue as a whole in India and at home since 1814 down to 1860 ; and what is the result? The period embraces 46 years. Of that number, we had a surplus in 13 years amounting on the whole to £8,895,437, a sum not equal to the deficit of the present year, and we had deficits in the remaining 36 years amounting on the whole to the large aggregate sum of £72,195,416. 13 years of surplus had an average of £684,264 a year. 33 years of deficit had an average of £5,540,000 a year. Nor was this state of things peculiar to the earlier part of the period to which I have referred. Taking the return only from 1834, when the management of India became purely governmental, we have a period of 26 years. Of these, the finances of India were in surplus only for seven years, while in the remaining 19 years, they exhibited large deficiencies. Again, Sir, I find by a return to Parliament in the last sessions, that of the 59 years which have elapsed in the present century, in no fewer than 44 of these years often large additions have been made to the Indian debt, while in 15 diminutions have taken place; *so that the normal state of Indian Finance may be said to be deficient of income and addition to debt.*"

50. *Explanation of Figures.*—In the appendix A to this section are given the figures, so far as they could be obtained from the various returns to Parliament, of revenues and charges in India, charges in England from 1814-15 and the aggregate debt. The debt figures from 1792 to 1821-22 are taken from the "*Review of the Financial Situation of the East India Company,*" by Henry St. George Tucker, published in 1824 and relate only to the debt in Sicca Rupees. The subsequent figures have been taken from the Report of the Parliamentary Committees as given in Mr. Bannerjea's "*Indian Finance in the*

* Budget speech of Rt. Hon'ble James Wilson, February 18, 1860, page 9.

days of the Company" Mr. R. C. Dutt's "*India under the Queen*", and checked by comparison with the corresponding figures given in the speech already quoted of the Rt. Hon'ble James Wilson, the first Finance Member of India. These comprise both classes of debt bearing interest, the amount of the non-interest bearing debt being not included. The latter consisted chiefly of arrears of salaries due to Government Servants, etc. Having reviewed, in outline, the main causes leading to the creation of this debt, it will be easier to understand the sections following in which an attempt is made to show the proper party for charging this debt with.

APPENDIX A TO SEC. IV OF CHAPTER II.

Year.	Receipts.	Charges.	Indian Result.	Home Charges.	Total.	Debt.
	£	£	£	£	£	S. Rs.
1792-93	8,225,628	6,940,833	1,284,795	...	...	53,368,683
1793-94	8,276,770	6,593,129	1,683,641	...	...	47,769,240
1794-95	8,026,193	6,567,808	1,458,385	...	...	47,760,064
1795-96	7,866,094	6,888,997	977,097	...	...	50,325,644
1796-97	8,016,171	7,508,038	508,133	...	...	57,129,008
1797-98	8,059,880	8,015,327	44,553	...	...	73,704,769
1798-99	8,652,033	9,139,363	- 487,330	...	...	84,974,559
1799-1800	9,736,672	9,955,390	- 218,718	...	...	101,124,828
1800-01	10,485,059	11,468,185	- 983,126	...	...	123,942,360
1801-02	12,163,529	12,410,045	- 246,456	...	...	136,351,420
1802-03	13,464,537	12,326,880	1,137,657	...	...	144,573,061
1803-04	13,271,385	14,395,405	- 1,124,020	...	...	161,854,265
1804-05	14,949,395	16,115,183	- 1,165,788	...	...	190,971,445
1805-06	15,403,409	17,421,418	- 2,018,009	...	...	217,271,252
1806 07	14,535,739	17,508,864	- 2,973,125	...	...	231,530,125
1807-08	15 669,905	15,850,290	- 180,385	...	...	244 892,828
1808-09	15,525,055	15,392,889	132,166	...	...	243,330,220
1809-10	15,655,985	15,534,711	121,274	...	...	238,236,344
1810-11	16,679,197	13,909,981	2,769,216	...	...	214,119,640
1811-12	16,605,615	13,220,966	3,384,649	...	...	221,182,349
1812-13	16,336,290	13,515,828	2,820,462	...	...	226,848,000
1813-14	17,228,711	13,617,725	3,610,986	...	...	213,992,502*
1814-15	17,297,280	15,955,006	1,342,274	1,445,266	- 102,992	238,630,000*
1815-16	17,237,819	17,059,968	177,851	1,217,397	- 1,039,546	242,000,000
1816 17	18,077,578	17,304,162	773,416	1,142,421	- 369,005	248,460,000*
1817-18	18,375,820	18,046,194	329,626	1,122,291	- 792,665	253,600,000
1818-19	19,459,017	20,396,587	- 937,570	442,489	- 1,380,059	267,800,000
1819-20	19,230,462	19,689,107	- 458,645	1,303,019	- 1,761,664	291,410,000*

Year.	Receipts.	Charges.	Indian Result.	Home Charges.	Total.	Debt.
	£	£	£	£	£	S. Rs.
1820-21	21,352,241	20,057,252	1,294,989	1,177,727	117,262	279,231,000
1821-22	21,803,108	19,856,489	1,946,619	1,335,921	610,698	272,786,000†
1822-23	23,171,701	20,083,741	3,087,960	1,344,821	1,743,139	
1823-24	21,280,384	20,853,997	426,387	1,273,478	- 847,091	
1824-25	20,750,183	22,504,156	- 1,753,973	1,207,174	- 2,961,147	
1825-26	21,128,388	24,168,013	- 3,039,675	1,914,293	- 4,953,918	
1826-27	22,383,497	23,312,295	71,202	2,467,522	- 2,396,320	
1827-28	22,863,263	24,053,837	- 1,190,574	1,960,570	- 3,151,144	
1828-29	22,740,691	21,718,560	1,022,131	1,949,760	- 927,629	
1829-30	21,695,208	20,568,358	1,126,850	56,316	1,070,534	
1830-31	22,019,310	20,233,890	1,785,420	1,676,221	109,199	
1831-32	18,317,237	17,048,173	1,269,064	1,476,645	- 207,581	
1832-33	18,477,924	17,514,720	963,204	1,227,536	- 264,332	
1833-34	18,267,368	16,924,332	1,343,036	1,293,638	49,398	41,350,952
1834-35	26,856,647	16,684,496	10,172,151	2,344,296	- 194,477	39,773,534
1835-36	20,148,125	15,994,804	4,153,321	2,461,402	1,441,513	35,344,043
1836-37	20,999,130	17,363,368	3,635,762	2,357,321	1,248,224	35,956,154
1837-38	20,858,820	17,553,525	3,305,295	2,358,631	780,318	34,000,853
1838-39	21,158,099	18,690,767	2,467,332	2,590,081	- 381,787	33,980,873
1839-40	20,124,038	19,649,045	474,993	2,673,054	- 2,138,713	34,484,996
1840-41	20,851,073	19,920,654	930,419	2,689,750	- 1,754,825	35,922,127
1841-42	21,837,823	20,699,660	1,138,163	2,956,303	- 1,771,603	38,404,473
1842-43	22,616,487	21,430,333	1,186,154	2,633,845	- 1,346,011	40,478,640
1843-44	23,586,573	21,981,298	1,605,275	3,035,389	- 1,440,259	42,448,750
1844-45	23,666,246	21,808,435	1,857,811	2,686,931	- 743,893	43,502,750
1845-46	24,270,608	22,618,671	1,651,937	3,143,361	- 1,496,865	43,891,849
1846-47	26,084,681	23,849,553	2,235,128	3,199,198	- 971,322	47,384,226
1847-48	24,908,302	23,730,402	1,177,900	3,109,895	- 1,911,986	49,857,114
1848-49	25,396,386	23,753,940	1,642,446	3,097,580	- 1,473,225	51,050,519
1849-50	27,522,344	24,210,051	3,312,293	2,808,977	354,187	53,934,768
1850-51	27,625,360	24,283,438	3,341,922	2,780,989	415,443	55,099,315
1851-52	27,832,237	24,592,085	3,240,152	2,676,186	531,265	55,114,693
1852-53	28,609,109	25,279,247	3,329,862	2,863,097	424,257	56,212,594
1853-54	28,277,530	26,978,146	1,299,384	3,427,976	- 2,044,117	53,657,376
1854-55	29,133,050	27,741,721	1,391,329	3,150,133	- 1,707,364	55,510,327
1855-56	30,817,528	28,372,901	2,444,627	3,559,809	- 972,791	57,743,327
1856-57	31,691,015	28,079,202	3,611,813	3,719,131	- 143,597	59,441,052
1857-58	31,706,776	35,078,528	3,371,752	4,492,470	- 7,864,222	69,473,484

V.—Constituents of the Debt left by the Company.

51. *Summary of the Origins of the Indian "Public Debt"*.—This, then, was the origin of the aggregate of Debt, left as the legacy of the East India Company's regime in India,—bad finance, improvident administration of the country, extravagance and exploitation, and, of course, incessant wars of conquest.* The resultant of the last-mentioned class of activities was, in many cases, accession of territory, which was generally represented to yield sufficient additional income to enable the rulers of the Company to meet the additional obligations occasioned by these wars from the gains of those wars. In practice, however, the new territories were seldom able to meet even their own cost of civil administration under a system of very expensive administration by a foreign agency. They can, therefore, be hardly expected, and were seldom able, to meet the additional cost of the interest representing the debt incurred for the wars which led to their conquest. The gains, therefore, from these activities of the Company were illusory; while the obligations imposed as a result of them were real as well as cumulative.

52. *Analysis of the Company's Debt.*—From the stand-point, however, of judging of India's liability, when the government of the country is about to be transferred to the people of the soil, for these transactions and the obligations resulting from the same, it would be best to consider the several classes of the Company's debt according to their origin, or component elements. These component or originating elements are:

(*a*) The Commercial Debt of the Company, or Debt due to the payment of the Company's Statutory Dividend and Capital Stock redemption;

(*b*) The Debt occasioned by the Wars waged by the Company within and beyond the natural geographical frontiers of India for Indian, or British Imperial reasons;

(*c*) Debt occasioned by the suppression of the rising of 1857, and Miscellaneous obligations taken over.

53. *Commercial Debt reviewed.*—Taking (*a*) first,—the Debt which may be traceable to the Commercial character of the East India Company, and was occasioned by the statutory obligation thrown on the Indian revenues for the payment of a statutory 10½% dividend on the Company's stock, irrespective of there being any trade profits to account for such a dividend; and for the redemption, after 40 years from 1834, at a prescribed rate, of the Company's capital,—we find that no precise amount can be mentioned, as specifically due to this account. And yet, in face of the express obligations cast upon this country by several successive Acts of Parliament, and in face of the amounts actually paid out of the Indian revenues on these accounts,† or admit-

*The Debt as left by the East India Company is not all subsisting bodily at the present moment, portions having been discharged in the meanwhile. As the aggregate of the Debt incurred by that corporation was in fact charged to India; and as the Debt of India was for a long time in the shape of non-terminable obligations, which are still in existence as part of the Indian Public Debt, there is no reason why the Debt left by the Company, and discharged out of the revenues of India, both as to Principal and Interest, should not be considered by this Committee. The reason is quite simple: Had this Debt been not there, we should have had proportionately smaller obligations to deal with, our resources would to that extent have been better, and altogether our present obligations correspondingly less.

†The Commercial Debt of the Company, kept apart since 1814 from the Territorial Debt, is not included, because it was assumed to be counterbalanced by the Assets of the Company on that side. The obligation cast by the Act of 1833, and repeated by the Government of India Act of 1858, was a net obligation, expressly mentioned in the Preamble of the earlier Act to be in consideration of the surrender by the Company of all its Assets. In reality, that Debt was also charged on India, being given in 1834 at £3,523,237, (Cp. Wilson's Budget Speech of Feb. 18, 1860, appendix). As this Debt was made up largely of paying dividends when there were no profits, it is impossible to understand the propriety or equity of the transaction embodied in the Act of 1833.

tedly converted into Indian debt for this reason,* there can be no question of taking stock of this Debt. Counting the annual dividend on the East India stock at £630,000 per annum from 1834 to 1858, that account alone must total £15,120,000, without allowing for cumulative interest from year to year on these sums. The Government had received certain commercial assets from the Company, which, according to Mill, realised over 11 million sterling. Had these been set apart into a special fund, and allowed to accumulate at Interest, there is every reason to hold that the charge cast upon India under the Act of 1833 would have involved no additional burden on the country's revenues; and we should have had no claim to urge in respect of that transaction, apart from the question about the origin of those very assets from the undue exploitation of India. But inasmuch as the Government realised and utilised the proceeds of those assets, without any fund being created of the type mentioned above, the burden on the Indian revenues becomes progressive, and inequitable. The payments, moreover, into the redemption fund for the Company's Capital stock were no made regularly as required by the provisions of the Act of 1833, with the result that, in 1874, when, under the terms of the Act of 1833, the Capital Stock became finally due for redemption, the amount required for that purpose was found to be short by 4½ million sterling in round terms. The payment of the Dividend at 10½% on the stock of £ 12 million was also continued upto 1874, and accounted for another £10,080,000. The payment, therefore, of the Dividend on the Capital Stock for 40 years, and the ultimate deficit on the Capital Redemption Fund, aggregate £29,779,416, without allowing anything for the Interest on these payments.†

54. *The Liability of India for these.*—The next point to be considered in this connection is the question of the justice and propriety of charging this amount to Indian revenues, as a burden on the Indian people. The actual charge was the outcome of the arrangements made between the East India Company's Directors and Proprietors, on the one hand, and the British Government, representing the British Parliament and the British public, on the other. In this the Indian people had absolutely no say, nor had the purely Indian interests any consideration whatsoever. This one-sided arrangement, therefore, cannot, in equity and good conscience, be held to be binding on the Indian people, at a time when they are to be given charge of the government of their own country after 165 years of exploitation, counting only from the date of the acquisition of the Diwani of the three provinces of Bengal, Bihar and Orissa by the Company. India, as already mentioned, received no benefit from the transaction between the British Government and the Company's Directors, either in the shape of the assets claimed to be valuable and surrendered by the Company, or in the intangible form of any special advantage such as that which results from having sole charge of one's country's government, or even from having a fair share of the opportunities of service and development of the country's resources, which Indians were denied in their own country all through the Company's rule, and for many, many years thereafter.‡ The British Government,

*See the Analysis of the Home Charges as given in the Appendix to the Budget Statement of April 16,1862. Also Welby Commission Report, Para 118.

†At the risk of repetition, it must be added that the whole of this amount was not included and could not be included, in the figure of the Indian Public Debt at the end of the Company's regime in 1858. The figure then given as representing the public debt included only £15,120,000 of the Dividends paid, the balance being brought to book in 1874, and added to the Public Debt actually in the amount of the Capital fund deficiency.

‡While Indians had practically no place in the superior services of their own country, as late as 1914, 80 years after the PRINCIPLE of their equal eligibility for the public service of their country was accepted, the Philippinoes, whose country was acquired by the United States on payment of 20 million Dollars to Spain, numbered 99% in their country's service. (Treaty of Paris, Dec. 10, 1898.) Until 1920, Indians had no control over their administration; and even to-day the responsibility of the Indian Ministers in the Provinces is, in effect, only nominal.

on the other hand, and through them, the British Nation received many and considerable as well as valuable advantages from the operations of the East India Company, both as a territorial and as a commercial body. For giving to them a charter of monopoly of trade all through the East Indies, including China, the Company came to the rescue of the British Government time and again throughout the Eighteenth Century, and relieved their embarrassments by timely and substantial assistance, the most noteworthy case of the kind being their taking over of large blocks of England's National Debt resulting from the South Sea Bubble in the first years of the Hanoverian dynasty.* The Company's commercial operations, again, resulted in very substantial gains to the exchequer of Britain all through the period of its trading monopoly, in the shape of Customs Duties in Britain on Tea and other Eastern produce imported into Britain, and sold by public sales at the India House, where there was no danger of the evasion of the public dues by smuggling, and where the cost of collection of these Customs duties was trifling.† The annual gain in this indirect manner to the British people was, in the 19th century, averaging £2 million or more. If, therefore, justice and good sense required that the East India Company, at the time when the British National Legislature had decided upon the abolition of the Company's commercial existence and monopoly, in the interests of the British trade and industry, required to be compensated for the Capital stock which that corporation had invested for building up that trade and its connected goodwill, it ought to have been the British public, rather than the Indian people and the latter's revenues, who should have borne the burden of that compensation. On the political side, too, the activities of the East India Company, ever since it became a territorial power in the East, served Britain's purpose, and fought Britain's battles all over the globe, far more cheaply and effectively than the British Government itself managed its wars in Europe or America. The first considerable wars of the Company in India, those in the Carnatic, were directly due to the European wars of Britain with France; and the same characteristic governs the wars in India and Java throughout the period dominated by the French Revolution and Napoleon. The wars with Mysore and the Marathas, and the expedition to Egypt in these years are clearly of this origin; and ought to be regarded as having been fought exclusively for Britain's advantage. The subsequent wars with Burma or Afghanistan, which added so heavily to the Debt of India, were as clearly in response to the British imperial requirements and behests of the British Cabinet. The territorial gains in India led to an accretion to the political prestige of Britain in world councils, which she owed demonstrably to the activities of the East India Company. Even in the commercial improvidence and extravagance of the Company, the British Parliament cannot be acquitted of its share of liability; since, though for its own purposes and for the benefit of British trade and industry at large, it had tried to legislate upon the affairs of the Company, regulate its commerce, prescribe its dividends as well as dictate its general policy, it had never seen fit to enforce upon the Company the need of providing adequate depreciation and reserve funds by any of these enactments. Hence when the final day of reckoning came the Company had no reserves of its own; and so could not make good its capital liability without laying a charge on some one else. Accordingly, when that corporation's trading privileges became ripe for abolition, and a compensation to them had to be given, the only party that ought to have, and should have given the compensation was and could only be Britain. Britain did not take that just burden on herself, but, passed it on to India, who had absolutely no voice in the whole transaction.

*See Hargreaves: *Our Public Debt.*

†See *Mill's History of India,* Vol. IX, p. 340 where the cost of collecting £3,300,000 worth of duties is shown to be about £10,000 only. *Cp.* Reports, Commons Committee 1830, p. 33.

VI.—War Debt under the Company: 1767-1858

55. *War Debt.*—(*b*) The next considerable item of the Company's legacy of debt to India consists of the obligations incurred on account of the several wars waged during the period of the Company's territorial development in India. The *rationale* of the war costs as regards their actual chargeability, as between India and England, has never been clearly formulated for obvious reasons. Speaking in general, waging of wars would be against the natural tendencies of a commercial corporation like the East India Company. Their commercial gains, normally speaking, would be interfered with by warlike operations. The conditions in India were no doubt peculiar, and the territorial gains were accompanied by such sudden and heavy acquisitions of wealth, that the aspect of war as an interference to trade was all but lost sight of by the governing authorities in Britain. The Directors, therefore, did not, in the earlier years, protest against wars or warlike enterprise, or even against the policy which was calculated to end in warfare, as they might ordinarily be expected to do. It was only when they realised that they were acting as merely the agents for the British Crown, in so far as the activities of their servants resulted in acquisitions of territory, that they perceived the imprudence of such adventures and protested against the same, or demanded refund of the moneys spent in these wars from their principal, *viz.*, the British Crown. For one thing, the principles enunciated in the several enactments of the British Parliament from time to time made it quite clear that the territorial acquisitions of the Company in India were and could be only of the British Crown, the Company being the agent of that authority. As early as 1773, the British House of Commons adopted the following resolutions:—

1. "That all acquisitions made under the influence of a military force or by treaty with foreign princes *do of right belong to the State.*
2. "That to appropriate acquisitions so made to the private emolument of persons entrusted with any civil or military power of the State is illegal." *

The third resolution passed at the same time placed on record the fact that great sums of money and other valuable property had been acquired in Bengal from the Indian Princes and others of that country by persons entrusted with the military and civil powers of the State, and by the aid of such power. In accordance with the foregoing resolution, these acquisitions of money and property were declared to be illegal. As the application of this resolution was aimed directly at Lord Clive with reference to his Jagir, the memory of the man's services made Parliament reluctant in giving full effect to the spirit of this resolution.

56. Subsequently, too, it was impossible for Parliament to press to the hilt the spirit of these resolutions, and the applications of the enactments which were passed about the same time and in the years that followed, inasmuch as the consequences of such a logical conclusion of these principles would, the statesmen of the time feared, involve the British nation into unknown consequences. The unspeakable ignorance about things Indian in the leading British statesmen made them naturally averse to take such risks; and so they were content to leave these territorial possessions in the charge of the Company, distinctly, however, as agent for the British Crown. But as no agent can act in such sovereign capacity as waging wars and making treaties involving territorial gains or losses except for the principal,—in this instance the British Crown,—it followed that the charges on account of these wars, waged in India or outside India, must logically be taken up and paid for by the British Crown. The claim of the British Ministers to regard

* See *Mill's History*, Book IV, Chap. I. pp. 357-8.

the Company as no more than agent was vividly brought out in the course of the discussion of the Resolutions preceding the renewal of the Charter Act in 1813, when an amendment was moved that the preamble should contain a declaration to the effect that the sovereignty of the Indian possessions of the Company resided in the British Crown. The amendment, however, was dropped, on the Minister of the Crown, Lord Castlereagh, representing on behalf of the ministry that the amendment was unnecessary because it raised a doubt where none was felt. During the discussions between the Ministers and the Court of Directors preceding the renewal of the Charter in 1813, this point was more clearly emphasized on both sides. In a letter to the Board of Control, dated 18th December 1808, and following a personal conference between the Directors and the President, the Directors

> "asserted the right of the Company to their territorial possessions, and stated their expectation that in a new Charter, the proprietors would be permitted to benefit by an enhanced rate of dividend on their stock proportioned to the improvement of the revenues of India, that the aid of the British public would be contributed towards the liquidation of the Indian debt, and that arrangements would be devised for an equitable apportionment of the Military expenses in prosecution of interest of purely British origin and not fairly chargeable to India."*

The President of the Board of Control in his reply dated 13th January 1809:

> "admitted that the Company had also a right to expect that the public should defray the cost of all hostile operations growing out of a state of war in Europe, whether India became the scene of them, or was likely to be their aim." *

57. The Directors might well object to bearing the whole burden of the cost of military operations resulting in territorial additions to the British possessions in India. Since the commencement of the 19th century, they had definitely laid it down that it was no purpose of their policy to indulge in warlike enterprise resulting in territorial additions to their dominion in India, or involving them in the internal dissensions of the Indian States. If, therefore, they went into wars of annexations thereafter, it was because the exigencies of the British Imperial policy in Europe very often compelled them to do so, sometimes even against the considered opinion of the Court of Directors of the East India Company. The most notorious example of the last mentioned is that of the first Afghan war, in which the President of the Board of Control or the Minister for the Crown for India definitely overruled the Court of Directors for starting and carrying on the war. † A great many, moreover, of the wars waged on Indian soil, upto 1815 at any rate, were directly traceable to the complications of British policy in Europe. For all these reasons, therefore, the cost of the wars throughout this period ought in justice to be charged not on India but on England. And inasmuch as a great portion of the cost of these wars was paid out of the gains made during those wars, the burden in respect of these wars may be pronounced to be comparatively negligible. Even if England were to bear the full cost of these wars and annexations of territory, she has acquired a magnificent empire practically for a song.

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* *Mill's History*, Book 1, Vol. III, Chap VIII, pp. 356-7.

† Report of the Fawcett Committee, Vol. IV. p. 163 (1874) Answer to Questions 2201-2202 (Salisbury evidence).

58. A third argument may also be advanced by way of analogy of the parallel cases within the British Empire itself. British adventure and enterprise have succeeded in acquiring in the last 200 years considerable territorial possessions in the various parts of the world. The cost of the acquisition, whether by discovery and settlement, or by conquest, or secession under the treaties at the end of a war, has seldom been charged on the territories so acquired, but has generally been borne on the British Exchequer. The acquisition of the various colonies in America, Africa and Australia has involved Britain in considerable cost, which, however, she has never sought to transfer to the countries affected. Even in the glaring case of Ireland, which has cost Britain large sums of money merely in suppressing rebellion, the cost of such operations practically amounting to reconquest of the country every time, has not been charged to that country on the event of its forming a new Free State within the Empire. The analogy may also be mentioned of the acquisitions of territory in the Pacific by the United States of America, notably the Phillipine Islands, which were acquired for a lump sum payment of twenty million dollars to Spain at the end of the war with that country in 1898. These Islands have in course of time been created into practically self-governing dominions by the United States, a degree of self-government which is almost indistinguishable from complete independence. And yet the initial cost of acquisition, *viz.* 20 million dollars paid to Spain, has not been charged upon that country by the United States, but has been borne by that country on its own exchequer. On these analogies, the claim may well be put forward that the cost of even those wars which may be said to have been waged on the soil of India itself, and within the geographical boundaries of India for consolidation of British dominion in India, should, in fairness and according to the implications of the Parliamentary enactments relating to the governance of these dominions, be charged, not to India, but to the British Government. The claim is the more sustainable when we recollect that the actual amount outstanding of the cost of these wars on the Indian continent so far as it may be said to form a part of the aggregate debt charged to India at the end of the Company's regime, would seem to be negligible.

59. That the cost of the wars on the Indian continent formed a very insignificant proportion of the aggregate of indebtedness left by the Company upon India may be shown from the following considerations. Most of the Indian wars appear to have been counterbalanced by indemnities received in cash, or by cession of territory yielding an income calculated to pay for the entire cost of the war. Moreover, the system of subsidiary alliances, which was utilised under Lord Wellesley and Lord Hastings to add to England's power as well as possessions in India, was useful in accounting for that considerable increase in the ordinary expenditure of the country which followed every successful war, and the resulting additons of territory therefrom. The net result has accordingly been that the actual volume of debt directly traceable to these wars, which has either been not paid from the indemnities received or territories gained, or from the general improvements in the finances of the British Government in India, will prove to be very very small indeed. Hence, if that burden is assumed by Britain, who has received the benefit of these wars and annexations, the principle of the Company acting only as an agent of the British Crown would be properly maintained, and at the same time justice done to the Indian people at very little cost to Britain.

VII.—Cost and charges of wars beyond the Frontier of India.

60. *Rationale of charging India with costs of Internal Wars.*—The wars waged by the Company's Government and expeditions made beyond the natural or geographical frontiers of India stand on a totally different

footing from the wars on the continent of India just reviewed. Speaking generally, they have not even that slight justification in their favour that the wars on the Indian continent have for permitting at all the costs incurred in their connection to be charged to India. On the other hand, costs of all these latter class of wars even as they have been brought into account—that is to say without reckoning the portion of the costs met out of ordinary revenues and the indirect costs—are very considerable; whereas the actual burden in money costs of the wars on the Indian continent was, as mentioned already, comparatively very slight. This burden, moreover, such as it was, was counterbalanced by the indemnities or the territorial cessions obtained and the increased revenues derived from them. Finally, in the case of the Indian wars, the extreme advocate of British claim to charge these costs on India might urge, as a set-off against these costs, the intangible but none the less demonstrable benefit of bringing the whole of India, that is to say the territories within the geographical limits apparently imposed by nature, under one dominion, and thereby introducing that spirit of solidarity which has made the Indian people, in course of time, the united nation as we know it to-day.

61. *No Justification for charging India.*—Without admitting that this benefit is at all commensurate with the direct and indirect, recorded and unrecorded, costs of these wars, in blood as well as in money, to the Indian people, we may nevertheless take note that even that slight justification is lacking in regard to wars waged beyond the frontiers of India. For the purpose of the present inquiry, these wars and expeditions are distinguished from the wars on the Indian continent by the fact that they are almost entirely due to British Imperialist reasons, the complications of European politics and international rivalries in which Britain was concerned. If any gain resulted from these wars, that gain went wholly to the British, whether it was in the shape of additional prestige, territorial dominion, or increased opportunities for the profitable employment of British labour and capital, or for British trade and industry. So far as India is concerned, and the advantage to Indian industry and commerce goes, no benefit has been derived by this country and its people from these foreign wars though the costs of such expeditions have been quite unfairly charged to this country.

62. *Summary of Overseas Expenditure.*—The most considerable of these wars and expeditions may be briefly reviewed as exemplifying the general remarks made above. Taken in their chronological order, these relate to:—

(*a*) The miscellaneous expeditions in the time of Lord Wellesley to Ceylon, Moluccas, Singapore, Isle of France, the Cape Colony and Egypt,—all carried out during the period of the Napoleonic wars in Europe, and almost all aimed at destroying the influence and dominion of France or her allies the Dutch or the Spaniards.

(*b*) Next comes the expedition to Java in the otherwise peaceful administration of Lord Minto.

(*c*) The War with Nepal follows in the time of Lord Hastings.

(*d*) The Burmese wars under Lord Amherst (1824-26), and under Lord Dalhousie, almost a generation later (1852-53), stand on slightly different footing, and will be so considered when the origin and consequences of each of these are outlined briefly below.

(*e*) The Afghan war under Lords Auckland and Ellenborough once more reverts to the general type of such wars, *viz.*, being due to the complications of international politics and rivalries which Britain is concerned in apart from India.

(*f*) The wars with China and Persia have their origin, not so much in international rivalries of Britain, as in the Imperialist greed or manœuvres of Britain.

63. *General Review.*—If we are to understand the real cost to India, that fraction of this cost which is represented only by the treasures spent upon these wars and resulting in additional debt charges in India, we must have a brief review of the origin as well as the resultant gains and costs of each of these main classes of extra Indian warlike operations.

64. *Wellesley Expeditions Overseas.*—The group of warlike expeditions carried out beyond the shores of India during the administration of Lord Wellesley, 1798-1805, were almost all, as already remarked, due to the desire of the British Cabinet, seconded by their nominee, the Governor General of the East India Company, to wipe out the political influence of France and her allies in the East during the period of Napoleonic ascendancy, and take over as many of the outlying possessions of the French Empire as could be managed by the naval supremacy that England had acquired in these wars. Almost every one of these expeditions was very costly. The table attached to Paragraph 37 above shows the resultant cost in regard to some of these. The single item of expedition to Egypt cost India nearly million and three quarters sterling, and the cost of the others may be judged from this. Perhaps all these expeditions in their aggregate may be estimated roughly to have cost India, in round terms, not less than five crores of rupees.

65. The ordinary administration of the territories acquired as the result of these expeditions, moreover, caused a continuous deficit which had to be made good from India. And though, these payments out of Indian revenues, or the receipts of the East India Company, were used in several cases to make a charge for refund from the British Government, the directors of the Company did not succeed in every instance in persuading the British Government to bear these burdens, or make a full refund of all the costs occasioned by them to India.

66. *Java.*—The expedition to Java was a solitary exploit in the otherwise peaceful and unaggressive administration of Lord Minto, 1807-1813. Java was a Dutch possession; and as the Dutch were almost entirely under the influence of Napoleon, these islands were a fit target for attack by the British power in the East. After a few years of keeping these islands in British hands, during which they involved considerable deficits* in ordinary expenditure which had to be made good from India, they were once more transferred to the Dutch soon after the restoration of peace in Europe after the fall of Napoleon. During the period of their possession by Britain, opportunities for traders and settlers were no doubt opened up in these parts; but those who took advantage to enrich themselves by such opportunities were not Indians but only the European subjects of King George III.

67. *Nepal.*—The War with Nepal, which may perhaps be said to come within the geographical frontiers of India, is nevertheless classed as a whole beyond the Indian territories, not only because Nepal still remains an independent kingdom on the borders of India like Afghanistan, but also because further powers beyond Nepal itself, *viz.*, Tibet and China, were aroused by the conflict between the British in India and the Goorkhas of Nepal. The international complications, in other words, of the Indian Government in the Far East were increased by this war, and the dangers that could well be apprehended from this direction have been averted largely because of the acquiescence of both parties in the arbitrament of the one and only war with Nepal. That war is estimated by historians to have cost India about a crore of Rupees, apart from the loss in prestige that the first

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reverses for the British arms in that campaign involved. This cost, it may be said, however, was made good by the cession of a portion of the territory, without further burden on the Indian treasury.

68. *Burmese Wars.*—The war with Burma in 1824-26, and again in 1852-53, is an example of British Imperialism manifesting itself aggressively in the East. The first Burmese war has been universally admitted by critical historians to have been a mistake, or at least to have been a disproportionately costly venture. Its costs, as mentioned before, amounted to above thirteen crores of Rupees. The indemnity of one crore received at the end of the first war, in addition to the territory obtained, hardly suffice to meet even interest charges occasioned by this war. And though the second Burmese War under Lord Dalhousie was conducted on a very much cheaper scale, costing only about a crore,* the resultant annexation of lower Burma fails to bring sufficient net surplus of revenue to meet these charges.† The commercial advantages, including mining and other concessions in the districts annexed from Burma, were almost all rented to people of non-Indian stock; while the burden of this new acquisition in addition to the cost of the war fell upon India. The question of the Burmese war costs is the more important to consider, inasmuch as it is not unlikely that, as the result of the constitutional changes now impending, Burma may be separated from India. Since these wars must be recognised to have originated exclusively in British Imperialist aggressiveness and since such benefits as have resulted to industry and commerce from them have not fallen at all proportionately to the lot of Indians, but have gone very largely to Britishers, it is but fair that India should be refunded the costs she has incurred in carrying on these wars with Burma, as also the deficiency in the administration costs of the Burmese territories long after the annexation which was paid out of the general Indian revenues. By the reasoning which we have hitherto followed, the Burmese, on their part, may justly claim that they cannot be expected to bear the burden of their own conquest by the British operating from India. Not only have they paid the British Government in India indemnities, and made cession of territories at each successive wars in 1824-26, 1852-53 and 1886-87 till the whole of their country was finally annexed to the Indian Empire of the British; but they have been as much a prey to exploitation by the British as India has been. Hence the only party who brought about these wars and benefited from the results, and who ought therefore to be charged with all the cost of the wars, together with such deficits as have been paid out of the Indian

* See Cambridge History of Modern India, Vol. 5.

† According to the Parliamentary paper on the accounts respecting annual territorial revenues and disbursements of the East India Company published on the 15th March 1856, the war cost, apart from the ordinary military charges in the period affected by the Second Burmese war, aggregated 116 lakhs. In the same paper the excess of administration charges in the territories ceded by the Burma and the provinces of Pegu amounted between 1852-53 and 1854-55 to:—

				Rs.	Rs.
1852	...	...	...	14,74,891	
1853	...	...	...	1,61,725	
					16,36,616
1853	...	...	...	11,72,544	
1854	...	...	...	16,20,577	
					27,93,121
1854	...	...	...	12,13,400	
1855	...	...	...	21,73,100	
					33,86,500
					78,16,237

The aggregate of three years excess being Rs. 78,16,237.

revenues for the administration of Burma all through these years, and a *pro rata* cost of the ordinary expenditure for the defence of the Indian Empire, is the British Imperial Government.

69. *Afghan War.*—The Afghan war during the regime of Lords Auckland and Ellenborough, 1839-42, was perhaps the only considerable example, during the period of the Company's Government in India, in which the directors of the Company stoutly opposed the desires and manœuvres of the British ministry to make India undertake this disastrous war. They were, however, unfortunately over-ruled as mentioned already. The Afghan war had been estimated to have cost 15 crores of rupees. John Bright M. P. in a speech delivered to the House of Commons in August, 1859, said: "Last year I referred to the enormous expense of the Afghan War—about fifteen million sterling—the whole of which ought to have been thrown on the taxation of the people of England, because it was a war commended by the British Cabinet for objects supposed to be British."* This reasoning of Bright was justified, inasmuch as the war was exclusively the outcome of the British Imperialist ambitions and designs clashing with a growing might and corresponding ambitions of the other great European empire which had designs upon the East *viz.*, Russia. These two European powers, working from different ends, converged upon the domains of one another, when the British had come to the Indus and Russia had approached the Oxus. Afghanistan was but the unhappy theatre for the exhibition of this clash, and India was the unfortunate paymaster for the same. As the struggle was unspeakably disastrous, no advantage was reaped by England in the first inconclusive trial of strength with Russia. England was, therefore, all the more unwilling to take upon herself the burden of her abortive policy; and India was therefore burdened with these costs. At this moment, when we are taking stock of the whole situation, India might justly claim that, on the ground that since she did not originate the war nor benefited from it, since none of her own interests were involved in the matter, she should not be charged with the cost of the struggle.

70. *Chinese and Persian Wars.*—The wars with China and Persia may be briefly dismissed. The first Chinese war of 1840 as well as the Second in 1856 were at bottom connected with the trading greed of the Englishman. China was an inexhaustible market for the Indian opium; and the Chinese were naturally restive against the ceaseless imports of this drug from India. England, however, determined to force the drug upon the Chinese, by force of arms if necessary, and the wars were the consequence. The war with Persia was only an off-shoot of the struggle for supremacy in Asia between Russia and England, the more magnificent and costly exhibition of which was on Afghanistan soil. The costs of these expeditions are difficult to trace accurately in the material at our disposal, but we may add, in any case, that India and Indians received no benefit from these wars, and so whatever these charges might be, India ought not to be charged with the same.

71. The result, therefore, of all these wars and expeditions, may be estimated to have been an aggregate addition to the burden of India of a sum of not less than Rs. 35 crores net (£35 mil. sterling) as follows in round terms :

		Rs.
Afghan war	... ...	15 crores.
The Burmese wars	... ...	15 „*
Miscellaneous foreign expeditions and the wars with China and Persia accounting only the unliquidated and unrefunded balances of expenses borne by India		5 „
	Total Rs.	35 crores.

* Quoted by R. C. Dutt in "*India under the Queen*" Page 217.

These figures have necessarily to be in round terms for reasons already mentioned. They come in the aggregate figure of the debt left by the Company at the close of its political existence in India, in one shape or other. At this moment, when the Indian people are due to obtain powers of self-government in their own country, it is but fair and proper that they should demand to be relieved of the burden caused by these wars and expeditions, waged neither in their interests nor by their authority, and forced upon them by the irresponsible might of the British Imperial Government.

VIII.—Miscellaneous Civil Charges and Administrative deficits of outlying settlements charged upon India.

72. *Administrative Deficits of Extra-Indian Possessions.*—We may next take note of the miscellaneous civil charges paid out of the Indian revenues for territories and possessions of the East India Company, beyond the natural frontiers of India. The Islands of Prince of Wales and St. Helena; Bencoolen and Java; Ceylon, the colonies of Cape of Good Hope, the Isles of Mauritius and Madagasker, Singapore and Moluccas—all these were for some years, at one time or another, in the possession of the East India Company. Almost every one of them failed to meet from its own revenues the ordinary civil expenditure of that region, and the deficit had, therefore, to be made good from the Indian revenues. The following is an estimate of the burden incurred in this way by India on account of St. Helena, Bencoolen and the Prince of Wales islands for the fifteen years between 1814-15 and 1829-30.

73. *Deficits in St. Helena, Bencoolen, Prince of Wales, etc. Islands.*—According to the Report of the Commons Committee of 1832 (Finance and Accounts) Vol. II, during this period of 15 years, Prince of Wales Island, Bencoolen, Singapore and Moluccas cost to India a net sum of £ 2,893,792; while at St. Helena similarly accounted for £1,576,317 or an average annual net burden of £300,000 in round figures. The charges in connection with the administration of the Cape Colony, Java and Isle of France etc. have been already mentioned in the table under paragraph 37. A good many of these charges continued right down to the end of the Company's political existence. If we take these to average only £300,000 per annum, and count the cost for 50 years, the amount will aggregate £15,000,000 on account of these excess payments. Similarly expenses of special Missions to Afghanistan and Persia, as well as of Embassies and consular services maintained in these distant countries for the benefit of British trade with the East, ought not to be charged to India, as also subsidies paid out of Indian revenues to neighbouring powers for reasons of British Imperial complexion. In sheer fairness, all these items should never have been charged to this country, nor its revenues burdened with their administrative deficits. How much precisely these sums amounted to in the course of all these years, it is exceedingly difficult to determine; but we should be erring very much on the side of underestimate if we put these down at fifteen crores at the very least uptil 1858.

74. *Summary.*—In concluding this section, then, we may represent the account in regard to all these transactions in round terms as follows:—

1.	Cost of extra Indian expeditions to Java, Ceylon, Egypt, Cape, Molluccas, Mauritius etc.	£5 Millions.
2.	Cost of Extra Indian wars in Afghanistan, Burma, China, Persia, Nepal	£35 „
3.	Miscellaneous civil charges and administrative deficits of outlying British settlements paid out of Indian revenues as also subsidies to neighbouring power	£15 „
		£55 „

IX.—Debt caused by the cost of suppressing the Sepoy Revolt of 1857.

75. *Cost of the Mutiny.*—This single item cost the Company's government in the last year of its existence over 38 million pounds in direct expenditure as shown above.* This is apart from all the indirect losses, sufferings, sacrifices and also the value of the support given by the Indian Princes during the period.

76. *Mutiny due to British Blunders.*—Taking, however, this cost at the figure given above, and representing only the net debt created by it, we must point out that no principle of justice and fairplay, or even of imperial usage in such matters, could be cited to support the decision of the British Imperial Government to charge these costs upon India. The rising, it need hardly be added, was entirely due to the misgovernment of the Company's affairs, and to that insatiate greed of rampant Imperialism, which led in the closing decade of the Company's rule to vast annexations amongst the peoples concerned. Whether it was the Punjab, annexed as a result of the war; or Oudh, annexed on the pretext of bad government; or Nagpore, Jhansi and Satara annexed because of want of direct male heirs of the then ruling princes, the population of those parts could scarcely be said to have accepted these changes with acclamation. This discontent was intensified by that other phase of the same greedy Imperialism which led to the discontinuance of the stipulated pensions to the legal heirs of the dispossessed Indian rulers, like the Emperor of Delhi or Peshwa, Bajirao II. Added to this came the general disaffection in the provinces which had been under British rule for a considerable period, owing to the legal innovations which took such forms as the Hindu Widow Re-marriage Act, 1856, and allowed special legal facilities to such of the children of the soil as became converts to Christianity. In the army, again, which was the head and front of this rising, there were reports of innovations that were considered by the high class soldiers, both Hindus and Mahomedans, as violating what they regarded as the basis of their religion. Accordingly, the disaffection grew on all sides, and ultimately, broke out into the rising, for the origin of which the British rulers in India must alone be regarded as responsible.

77. *India in no way Responsible for the Outbreak.*—Since no section of Indians were in the councils of government in those days, Indians must, of course, be regarded as free from any blame relating to the origin or the causes of the rising of 1857. And they must, by parity of reasoning, be exempted from the burdens due to the efforts of suppressing the rising. Many Indian princes and a large portion, perhaps, of the people, co-operated in the efforts to suppress the rising; and they bore the burden of that effort on themselves in so far as it involved suffering, sacrifice and loss in men, money or material. But more than that, they could not be reasonably asked to bear.

78. *Precedents in other Dominions.*—The analogy of the policy of the British government itself in other parts of the British Empire may be mentioned in support of this contention that India cannot be saddled with the cost of putting down the so-called Mutiny. Ireland, for example, had continued, before the creation of the Irish Free State, to be a hot bed of revolt. Certainly, throughout the last great war, from 1916 to the date of the establishment of the Irish Free State, Ireland was involved in one continuous revolt. The effort to put down that national opposition to the British rule in Ireland had cost the British Exchequer untold amounts. Perhaps 200 million pounds for all the operations in Ireland in 1916-22 will not be an excessive figure. And yet no part of this cost has been charged to Ireland, but all of it has been borne exclusively by the British Ex-

* See Wilson's Speech, 18th Feb. 1860, quoted in footnote ¶ to para 39, page 23.

chequer. The cost of the Boer War in the Transvaal, again, which was a British colony and which also had to be reconquered from the Boers, aggregated some 150 million pounds, has not been charged either to Transvaal when it was reconquered and made once more a British territory, or to the South African Union when the Federation of the African Colonies was formed in 1907. Similar analogies may be cited from the American Continent, with reference particularly to Canada.

79. *American Analogy.*—Even outside the British Empire, there are analogies which may be cited in support of the same contention. If the United States of Northern America had in the Civil War, 1860-64, to re-conquer as it were the Confederated States of the South, the cost of the Civil war has not been charged to the Southern States alone, though they threatened to secede from the Union, but has been borne by the Union Government. It is true the Union was inclusive of all the States before as well as after the Civil War both of the North and the South; and therefore there was a common purse as between them, both before and after the war. The expedient, therefore, of charging the States threatening to secede, particulary, with the costs of the Northern States in waging the war would have been as inadvisable as it was impracticable. The Indian Government had throughout the period been kept, at least in form, as a separate, though dependent, state; and so perhaps the American analogy may not be applicable at all points to the Indian case. But the analogy of Ireland and Africa must in any case apply to the case of India, who must therefore be allowed to claim exemption from the charges relating to the suppression of the Indian Mutiny.

80. *British Obiter Dicta.*—Englishmen of liberal thought themselves declared against the policy of charging India with these costs. Said John Bright in a speech in Parliament on East India Loan, March 1859 :—

> "I think that the 40 millions which the revolt will cost is a very grave burden to place upon the people of India. It has come from the mismanagement of the Parliament and the people of England. If every man had what was just, no doubt that forty millions will have to be paid out of the taxes levied on the people of this country."

This reasoning, though voiced strongly in Parliament at the time, was unacceptable to the British Ministry of the day for obvious reasons. Though the Company had ceased to exist, the British Government transferring the empire of India from the Company to themselves, refused to do this simple act of justice to the Indian people. The blunder was made by the British administrator; but India was made to pay the cost of that blunder.

81. *Mutiny cost further inflated by British Greed.*—The cost of suppressing the Indian Mutiny was the more severe, because it was inflated by the excessive charges of European troops sent out to India for this purpose. While the Indian troops had been employed in the British Imperial quarrels in China, Persia or Afghanistan, the East India Company had never received any payment for the service of the Indian troops employed outside their Frontiers in British Imperial wars. When, on the other hand, British troops were sent out to India to suppress the so-called Mutiny, England exacted the entire cost of all those troops sent to India in a manner that would reflect high credit on the worst Shylock. According to Sir George Wingate*:—

> "It would appear that when extra regiments are despatched to India, as happened during the late disturbances there, the pay of such troops *for six months*

* "*Our Financial Relations with India*" Lon. 1859. by Sir. G. Wingate.

previous to sailing is charged against the Indian revenues and recovered as a debt due by the government of India to the British Army Pay Office. In the crisis of the Indian Mutiny, and when the Indian Finances were reduced to almost desperate condition, Great Britain not only required India to pay for the whole of the extra regiments sent to that country from the day of their leaving these shores, but has demanded back the money disbursed on account of these regiments for the last six months' service in this country previous to sailing for India."

No wonder that the cost of a single year of operations for the suppression of even the revolted troops was more than ten times the cost of the Punjab War, with the most veteran as well as the best disciplined and best equipped troops in India, or three times the cost of the entire Afghan disaster.

X.—Other Items of Debt created under the Company.

82. *The Railway Debt due to deficits in Guaranteed Interest paid out of Revenues.*—There is a class of the debt created under the East India Company, of which we have hitherto taken no notice. That is the debt occasioned, indirectly, by the payment out of the country's current revenues of the deficiency in the guaranteed minimum of Interest to the Railway Companies, which had been incorporated and had got into working order during the last few years of the Company's rule in India. Though the history of the Railway enterprise in India may be said to begin as early as 1845, the accounts of the Indian Government do not begin to show a deficit on this head till and after 1849. These were but the beginnings, a systematic and comprehensive Railway policy being not formulated or put into execution, until after the Minute of Lord Dalhousie. The burdens of the Railway Guaranteed interest assume, however, large proportions after the end of the Company's rule; and as I have considered that subject fully under the section dealing with the "Productive Debt" of India under the British Crown hereafter, I think it unnecessary to add any detailed consideration of that item in this place.

83. *Debt caused by Railway Interest.*—The Railway Guaranteed Interest, during the last few years of the Company's regime, is, however, not an insignificant item. The subjoined figures will serve to show its progressive magnitude in ten years. The aggregate on the three principal lines the East Indian, the G. I. P. and the Madras Railways amounted in ten years to £2,244,829. Five other Companies were incorporated in this period: but they had not got into their stride as it were, for looting the Indian Exchequer in this period. This is, however, the only class of the so-called public debt of India, created under the East India Company's regime, which, under the reasoning employed in later times, might be regarded as promising to be "productive," or bear its own burden eventually, with definite assets to support that burden There were also projects of irrigation works which were productive of new wealth to the people of India in a far more material, or real, sense than these Railways could ever be. But the Company's Government spent monies on these works tardily and grudgingly; and so the class of debts which might at all be considered to be able eventually to bear their own burden was exceedingly limited all through the Company's period. We have, however,

Year		Amount paid from Revenues for Guaranteed interest.
1849	£.	5,602
1850	,,	10,634
1851	,,	43,504
1852	,,	61,544
1853	,,	74,896
1854	,,	123,589
1855	,,	244,104
1856	,,	400,270
1857	,,	552,262
1858	,,	718,524
Total		£2,244,829*

* *Cp.* Jutland Danvers Railway Administration Report of 1860, paras 32, 48, 60,

mentioned this group in this place, without including the amount on this account into the sum total of the Company's Debt left to India, for the reason already given. If, however, the item is to be added,— though its treatment must necessarily be governed by different principles,— we must remember that in the aggregate of the Company's debt account, we have included above those sums which were paid on account of the Company's Dividend from 1858 to 1874, as also the deficiency in the Capital Redemption Fund, which both were not mature and due at the date of the transfer of the Government of India from the East India Company to the British Crown. These adjustments and readjustments are matters of detail; they do not affect the main principle of the case submitted herein.

XI.—General Exploitation of the Country.

84. *Ways and Means of exploitation.*—In the foregoing Sections, no notice is taken of that general and systematic exploitation of this country, which was such a prominent and painful feature of the Company's administration in India, ever since it become a political power in this land, and which was so clearly revealed in the Report of Parliamentary Committee, preceding each renewal of the Charter. The classic case of the Impeachment of Warren Hastings, and the charges formulated by such accusers as Burke, Fox and Sheridan, is but one of innumerable instances in which this country appears to have been exploited ruthlessly by direct and indirect methods from the highest to the lowest servants of the Company. This exploitation is apart from that permitted and authorised loot,—we can find no more appropriate expression for the transactions,—which consisted of excessive salaries and innumerable allowances which were paid under the Company's regime to its European public servants, in compensation admittedly for their Covenant to surrender all opportunities of getting rich quickly by accepting "presents" from the children of the soil. The single instance of the salaries and allowances payable to the Company's Commander-in-Chief in Bengal will suffice to show the degree and manner of this intensive and progressive exploitation:—

> "The Commander-in-Chief received, besides his salary and various allowances, seven and a half shares of the commission on the *Diwani* revenue collections. In 1774, the Court of Directors instructed that the Commander-in-Chief be permitted to occupy a suitable house, and that he be paid a sum of £ 6,000 per annum, in lieu of travelling charges and all other advantages, in addition to his salary of £10,000 as member of the Governor General's Council. Curiously enough, these emoluments were not considered enough for the head of the military department, and it was resolved in the Governor-General's Council, in 1779 that Sir Eyre Coote, then Commander-in-Chief, should be allowed to draw Rs. 7,500 per month for the expenses of his table, and Rs. 6,326 for travelling and incidental charges when in the field."*

85. *Drain through Pensions etc.*—In addition to bleeding India white, while these mighty ones were "serving" her on the spot, many of them were granted large pensions and special allowances, even after their retirement to their own country, over and above such superannuation or pension allowances as were payable under the ordinary rules of service. We have already mentioned the case

* Banerji, *Indian Finance in the days of the Company*, p. 345. In a footnote to this passage Dr. Banerji observes: "The accounts of the military departments show that from the 1st May 1763 to 1st September 1777 the total amount of allowances drawn by the Commander-in-Chief was Rs. 24,03,923. During the two years that Clive was Commander-in-Chief between 1765-7 he did not draw these allowances, so the average annual allowance comes to Rs. 2 lakhs. It might be added that these allowances voted in 1779 were disallowed by the directors in 1780.

of Warren Hastings to whom a large loan was made without interest, and a substantial pension voted by the Directors,—a pension large than that allowed to William Pitt, the elder, after he had proved his genius as well as honesty in the public service of the country, by refusing to accept all those amounts by way of interest which the account standing in his name as Paymaster General earned, and after he had won the Seven Years' War for Britain with all the glories gained by Wolffe and Clive and many another soldier and sailor in the different parts of the world. While the British nation, grateful after such services, could vote only £ 3,000/- a year to the Great Commoner, the Directors voted £4,000 a year to the plunderer of Cheytsing and the Begums of Oudh and the murderer of Maharaja Nundkumar, in addition to a free of interest loan for 18 years of £50,000. But he was not the only one who received such advantages. Clive had, no boubt, paid himself; and a nobleman like Lord Cornwallis was above accepting his share of the Prize money amounting to over £ 47,000, at the close of the war with Mysore in his administration.* But the subjoined list of extraordinary pensions to distinguished governors, commanders, Governor-Generals, has its own lesson to the student of the Company's financial administration in India. No wonder, their greatest quarrels with their own Ministries in Britain were in regard to the "Patronage" connected with their Indian possessions!

Name	*Pension allowed.*
Clive	Jahgir income.
Cornwallis	£ 5,000 a year.
Wellesley	5,000 ,,
Macpherson	1,000 ,,
Barlow	1,500 ,,
Lord Hastings	60,000 (lump)
Lord Hardinge	5,000 a year.
Lord Dalhousie	5,000 ,,

86. *Injury Wrought by Fiscal Policy.*—The foregoing account is also independent of that other factor of our country's exploitation under the dominion of the East India Company, which is symbolised in the general Fiscal Policy that brought about the ruin of Indian industry for the benefit of the British commerce. We shall have to take fuller note of this item in another connection in a later section of this Report. Here it is enough to add that the peculiar economic policy pursued by the Company's rulers in India was inevitable, given a commercial,—and at that a monopolist,—corporation in charge of the government of such vast territories. The inevitable consequence was the decline and decay of India's capacity to produce new wealth, which alone could have enabled her to meet and bear the heavy burdens outlined above. The incidence of the debt, therefore, was felt to be heavier than perhaps the mere size of the Interest figure would suggest, though that also was not inconsiderable.

87. *Evaluation of Exploitation.*—The net figure, which might very fairly be taken to represent the value of India's exploitation during the period under review for any one of the several causes mentioned above, is to be found in the so-called Home Charges. Appendix A contains an account of those charges regularly since 1834, though these burdens did not come into being for the first time in 1834. They were a source of continuous drain from India ever since the Company became a territorial power in India. The average value of the Home Charges, in the first twentyfive years of the Company's rule, was over £ 3 million per annum. That figure has since been multiplied almost ten times or more. But what the loss of so much wealth every year means to this country, in the shape of lack of capital for developing her productive resources alone, will best be understood from the following graphic, but by no means over-coloured, picture:—

> "The annual drain of £ 3 million from British India amounted in 30 years at 12 per cent compound interest (the usual Indian rate) to the enormous sum of £ 723,994,971; or at a low rate of £ 2 million per annum at 8,400 million sterling." (Montgomery Martin's evidence before a Parliamentary committee in 1842.)

* *Cp.* Banerji Op. Cit., p. 345.

XII.—Conclusion and Recommendations.

88. *Creditors' claims.*—The conclusion we arrive at, after the foregoing review of the origin, nature and development of the obligations imposed on India, as the result of the transactions between the East India Company and the British Government, is set out in the following paragraphs. Before, however, that conclusion is set out, and the recommendations formulated on the basis thereof are put forward, I should like to add a word of general reflection as to the really binding character of the obligations created by the transactions of the East India Company, so far as the chargeability of the Indian territorial revenues with these burdens is concerned. We have the high authority of the Parliamentary Committee, which inquired in 1832 into the affairs of the East India Company, for saying :—

> "That part of the Debt at interest, which is termed the Registered Debt, consists of sums raised from time to time on Loan at interest, and secured by Bonds granted to the Creditors by the Governor General in Council (numbered and repayable by a fixed rule regulated by the order in which they are registered) wherein the amount borrowed is declared to be a loan to the East India Company, and the engagement is given for and on behalf of the Company to discharge the sum under certain conditions. **None of these conditions however give to the Creditors any direct claim on the territorial revenues of India for the repayment of the sum thus advanced by them.** The first creation of the Registered Debt does not appear to have been directly authorised by the Charter of the East India Company, or by Act of Parliament; but subsequent enactments of the legislature have fully recognised it, and in a manner which, it is supposed, has given to the creditors a claim on the territorial revenues of India for repayment of the money advanced by them to the Company."*

On this reasoning, notwithstanding the implication of the later Parliamentary enactments recognising the existence of the Company's registered debt and providing for the same explicitly, it may be questioned if, strictly speaking, the revenues or the peoples of India could be made chargeable with these burdens.

89. *Aggregate Burden of the Company's Legacy.*—Be this point decided as it may, the final finding that we have to record, in regard to the financial obligations falling upon this country, as the result of transactions between the British Government and the Directors of the East India Company, is an aggregate Debt charge of £112,511,223. † Not the whole of this is or could be shown as the sum total of the debt outstanding at the date of the transfer of the Indian Government to the British Crown. But the amount of the adjustments necessary to make, so as to arrive at the precise figure of the legacy of obligations left to this country by the Company's rule, have already been indicated. £14,659,416 of the figure mentioned above did not become due till 16 years after that transfer of Government. On the other hand, £ 2,244,829 is included in that figure on account of the charges of the guaranteed interest to the Railway companies which, for the sake of convenience, we have decided to take into account in the next period for review.

90. The aggregate thus reduces itself as follows :—

Aggregate burden as shown in para 39 above	112,511,223
Less the amounts not due till 1874	14,659,416
Plus Interest paid on Railway Account	2,244,829
Net Total.	97,851,807

* *Cp.* Report Commons Committee 1832, Vol. II, Finance and Accounts, p. xviii.
† *Cp.* para 39 above.

This is exactly the figure of the Indian Public Debt as given by Wilson in his first Budget speech on February 18th, 1860, and may be taken to represent the net burden left on India by the transactions with the East India Company.

91. *Further Analysis and Adjustments of this Burden.*—This debt may be analysed, according to the occasions of its creation, into the following component parts :—

Amount due to 40 years' payment of the Company's 10½% dividend £ 630,000	£25,200,000
Amount due to Company's capital redemption a/c deficiency in 1874	4,579,416
Amount due to Extra Indian Wars and Expeditions* ...	40,000,000
Miscellaneous charges of outlying settlements like St. Helena etc.	15,000,000
Cost of supressing the Indian Mutiny†	38,410,755‡

This makes roughly an aggregate of £123,190,171. Deducting from it £14,659,416 as not due till 1874 the amount is reduced to £108,530,755, while the aggregate burden on April 30, 1858, is shown to be £97,851,807. The difference between the two £10,678,948 must be taken to represent the amount of debt discharged during all this period. As we are considering only the final balance of indebtedness left at the end of the Company's end, we do not make any claim in respect of such amounts of debt, which, though incurred for purpose not justly chargeable to India, has now no place in the final account, as having been liquidated or discharged. The amount mentioned above also does not include, it may be mentioned, the costs of the wars on the Indian Continent, for which also, therefore, no claim to refund is made.

92. *Final conclusion.*—Taking the final balance as above, I consider that India cannot be charged with this debt in justice or equity, whether for benefit received by her or service rendered to her. India has been bled white in the course of the Company's rule to enrich the coffers of the Company and its servants, as well as to minister to the exigencies of British industrial development. But I realise that, at this time of the day, India can make no concrete demand and counterclaim in respect of these burdens and exploitation of her resources for three-quarters of a century. So far, however, as the items actually brought to book are concerned, and so far as they figure in the above total, I believe that India has helped to enrich the proprietors of the East India Company enough and to spare, so that no charge ought to be levied on her for the benefit of the Company, either on account of the Redemption of the Proprietors' Capital Stock, or in respect of the Dividend payments thereon. They had themselves to blame if no provision was made for this eventuality. If any compensation is at all due to these parties, after 70 years of incessant exploitation, that compensation should be paid by Britain, whose people as well as whose public exchequer have derived innumerable solid advantages from the operations of the East India Company. Similarly, I feel convinced that no burden should be cast upon India, as in fact it has been cast in regard to these extra Indian wars, expeditions and general administrative deficits of outlying settlements of the

* *Cp.* para 74 above.

† *Cp.* para 39 above.

‡ The rupee figures in all these figures are converted into sterling, wherever necessary, at their usual rate of 2*s.* per rupee.

British, on account of which, as things stood in 1858, India was burdened with over 40 million sterling of indebtedness. And, finally, the cost of reconquering India for the British from the rising of 1857, aggregating in round terms £40 million sterling, ought, on no account, to be charged to this country. We have given our reasons above for these our conclusions and recommendations. Here we need only add that in presenting this account, and in making this recommendation, we do not overlook the wisdom of moderation; and therefore we attach no great weight, or make out no very concrete counterclaim, in respect of the drain and exploitation to which India had to submit thanks to the foreign domination. We trust this moderation will be appreciated and the recommendation put forward above will be adopted.

NOTE TO CHAPTER II

The sub-joined is a summary of four cases, closely parallel in many details to the case considered in the foregoing pages, of the governance of India being taken over from the East India Company in 1858, and the financial transactions in relation to the same. These cases are all from the British Empire. They relate to the dominions or territories of the Empire, which have either formed new states within the Empire by detachment from their original place, or which were taken over by the parent state. The treatment of the debts and claims etc., at such a point of new departure in the life of the state, dominion, protectorate, or colony concerned, forms a very instructive analogy to those investigating the Indian claims.

I. *The Irish Free State.*—The first case we select for this purpose is that of Ireland. Ireland had formed part of the United Kingdom from 1800 to the date of the constitution of the Irish Free State. Its Exchequer was amalgamated with the British Exchequer in 1817; and from that date all financial concerns and obligations of the United Kingdom of Great Britain and Ireland were one and indivisible upto the date of the dissolution of the Union. Ireland was, therefore, in strict political theory, liable for the British National Debt, along with England, Scotland and Wales, *pro rata* according to her wealth and population. On the institution of the Irish Free State in 1922, the question naturally arose as to the apportionment of Ireland's liability for the British public debt. By clause 5 of the Ireland (Confirmation of Agreement) Act of 1922, it is provided as follows :—

> "The Irish Free State should assume liability for the service of the public debt of the United Kingdom, as existing at the date hereof, and towards the payment of War Pensions as existing at that date, in such a proportion as may be fair and equitable, having regard to the fair and just claim on the part of Ireland by way of set-off or counterclaim, the amount of such sums being determined, in default of agreement, *by the arbitration of one or more independent persons being citizens of the British Empire.*"

On this basis, and taking the Public Debt of the United Kingdom in 1922 at £7500 million, and its population at 50 million souls, in round terms, the share of the liability of the Irish Free State would amount to some £600 million sterling, as practically the whole of that debt was incurred after the Union with Ireland. In the Treaty, however, between Nationalist Ireland and the British Government, the former, accepting the principle of liability *pro rata* for the British Public Debt, had also secured the acceptance by the British Government of the principle that Ireland's counterclaim, if any, should be heard before an impartial tribunal or arbitrator, if the parties mainly concerned were unable by themselves to arrive at an agreement. What counterclaim Ireland exactly would put forward

was not known. A century of exploitation must have left enough margin for a respectable amount being claimed on that ground. Anyhow, the Ireland (Confirmation of Agreement) Act of 1925 provided as follows:—

> **"The Irish Free State is hereby released from the obligations under article 5 of the said article of agreement to assume liabilities therein mentioned."**

The result was that: (1) the Irish Free State escaped all liability, which might have amounted to £600 million in connection with the British Public Debt. (2) She escaped being charged with any part even of the cost incurred by Britain for suppressing military rebellion in Ireland, which lasted practically all the time from 1916 to 1922. This item alone is calculated to have cost Britain over £200 million. (3) Ireland secured the admission of the principle of a counter-claim from such a State as Ireland being considered, by negotiation and agreement among the parties concerned; and, failing that, by arbitration of an impartial British citizen, like General Smuts. (4) The new State, as a matter of fact, received substantial financial aid from the parent state in order to put the former on its legs, which was a tacit acceptance of the fact that the compensation due to Ireland was greater than her *pro rata* liability for the British Public Debt.

On almost all these points, there is a close analogy between the Irish and the Indian case, except that while Ireland was for over a hundred years part of the United Kingdom, India was always maintained, in name at least, as a separate entity. India was not asked, at the time of the transfer of its Government to the Crown, to bear a part of the British Public Debt; but only the whole of the debt which British blunders, rapacity, or Imperialism had fastened upon her. India was, unlike Ireland, compelled to bear the cost of suppressing the final Revolt for Independence in 1857. India now, like Ireland in 1922, demands an impartial review of these obligations; and, even if she accepts the principle of liability for these obligations, desires consideration of such claims as she may have to advance against Britain for her ceaseless exploitation at British hands, and in respect of unjust, inequitable British Imperial burdens being passed on to India, simply because India had no voice in such adjustments.

II.—The Nigerian Territory.

The second case we consider is that of the dominion of a Chartered Company, being taken over for direct administration under the British Crown. The Royal Niger Company was formed in 1886, out of the United African Company, by a Royal Charter. Certain territories in Western Africa were placed under that Company by the Charter. Thereunder, the Company conducted the administration of these territories, and made wars and treaties with the neighbouring States, leading to the imposition of Western domination upon the indigenous races, almost in the same manner as the East India Company did. The pressure, however, of rival powers, particularly French and German,—the one operating from the North-West through Morocco, the other from the South-East, through the Cameroons,—made it impossible for that Company to hold these territories from its own private resources. In these circumstances, it was arranged that, **in consideration of a composition of £565,000 paid out of the British Exchequer for private rights**, the Company should surrender its Charter and transfer all political rights in the territories to the Crown. This transfer took place from January 1, 1900, when the Company dropped the word "Royal" from its title, and became a purely trading corporation.

The points of interest in this case are: (1) that the compensation to a private corporation, acquiring territories, is allowable only in respect of private rights of the corporation; (2) that that compensation is paid from the purse of the

State acquiring or taking over these territories,—and not by or from the territories. In the Indian case, the East India Company, when its governing powers were taken over by the British Crown, was paid a lavish compensation for both its commercial (or private) and territorial or political assets and privileges; and the payment was decreed by the British Government to be made out of Indian revenues, without any consultation with or concurrence of the Indian people.

III.—British South Africa

The next also is a case of the territories acquired and developed by a Royal Chartered Company, being subsequently taken up by the British Government.

This Company had been formed to acquire and develop territories in South-East Africa. During its charter, the Company had acquired vast territories which it governed and developed under the powers granted to it by the Charter. After the expiry of the 25 years' term of the Company's Charter, on October 29th, 1914, among other alternative courses, three specially claimed the attention of the settlers. When in 1907-8 the National Convention met to frame the Union of South Africa, Rhodesian delegates had followed the deliberations in the interest of their country. Provision was made in the Imperial Act of 1909 for the subsequent voluntary entry of Rhodesia into the South African Union. That course was open even in 1914. A second was the support for a renewal of the Company's Charter; and a third to press for complete self-government for Rhodesia. The development of events, under the Parliamentary Dutch Ministry of General Botha, made Rhodesians hesitate to join the African Union; and in 1913 a movement for responsible government took shape. The process of taking over the administration from the Company, however, presented so many difficulties, that eleven out of twelve members elected to the Rhodesian legislative council in March 1914, were pledged to maintain the Company's rule for the time being. A month later the council defined its policy. It affirmed the right of the settlers to self-government; and instituted the proceedings necessary to ascertain what sources of revenues the Company would hand over to the administration that succeeded it. In these circumstances the British Government renewed the Charter for 10 years, with the proviso, in which the Company concurred, that responsible government should be granted even before the term of the Charter expired, if, and when, the settlers could show that they were capable of administering the colony. The Directors of the Company were ready to surrender their political powers; but they had to consider the interests of the share-holders. The one difficult problem was the ownership of the un-alienated lands. The Company's expenditure on administration had exceeded greatly the revenues collected; and the Directors therefore looked to the sale of these lands to make good the loss to it in administrative expenditure. With this purpose in view, they had declared formally in 1913 that the un-alienated land in the Colony, as well as its mineral rights and railway interest, were all the property of the Company. The Legislative Council of Rhodesia, on the other hand, maintained that the land was vested in the Company merely as an administrative and public trust; and as such would pass, on the expiry of the Company's administrative power, to the colony. A Privy Council judgment decided that, while the unalienated land was the Crown property, the Company was entitled to dispose of it until the losses it had incurred in administration had been made good to it. The Royal Commission —the Cave Commission—assessed the amount thus due to the Company at £4,435,000 in January 1921. On the recommendation of the Buxton Committee, and in response to a petition from those who were in favour of entering the South African Union, on the specific terms offered by General Smuts for admission to the Union, these terms as well as a constitution for Self-Government were placed

before the Rhodesian electors in 1922. The question was decided in October 1927 by a referendum, in which 5989 electors voted for an entry into the Union, and 8774 for responsible government. This decision led to the intervention of the British Government, which decided to end the Company. *The latter agreed to accept, in full satisfaction of its administrative claims in respect of both Northern and Southern Rhodesia, the sum of £3,750,000 in lieu of the Royal Commission assessment of £4,435,000; but it retained its mineral rights, and obtained an assurance that these and its interest in the railways* would be respected by the government which replaced it. The £3,750,000 was paid in cash on 31st October 1923. Of this sum, **£1,750,000 was the gift of Great Britain,** and the remaining two millions, raised by loan, was paid by Southern Rhodesia, which at the same time repaid to the British Government what the latter had advanced to the Company towards its administrative losses.

This case is interesting for the same reasons as the preceding, and because of the very much larger scale of monetary transactions involved. Here also the compensation for private rights was paid to the Company concerned, in part if not wholly, by the British Exchequer.

IV.—The Case of the South African Union

The fourth and the last case of analogy is that of the South African Union—a Self-Governing Dominion of Great Britain. It is a Federation of four states or colonies, two of which—the Transvaal and the Orange Free State—were engaged in a mortal war for 3 years with Britain, 1899-1902. These states had an overwhelming Dutch population. Nevertheless, soon after the end of the Boer War, these old enemies were made into Self-Governing Colonies, to be afterwards federated in the South African Dominion, where British supremacy or domination is a mere figure of speech. The suppression of the Boer rebellion cost Britain, between 1899-1902, over £150 million; and yet not a penny of that was recovered from the offending states. On the contrary, by the Treaty of Veereeniging which ended the Boer War, the British Parliament agreed to make a free grant of £3,000,000, to rehabilitate the wasted homesteads of the Boers. The new Government honoured alike the obligations incurred during the War both by the British as well as by the Boer officers in the field. And, in addition to all that, in the early years of the new Colonies, Britain guaranteed on their behalf a loan of £35 million for their economic rehabilitation. The Boer as well as British Colonies in South Africa were made a complete Self-Governing Federal Dominion in 1909, so that Britain loses what little opportunity she ever had in these parts even indirectly to repay herself for the sacrifices she had incurred in acquiring, building up, or conquering these territories.

The application of these precedents to the case of India, as regards compensation to the East India Company, or the costs of its wars, or the burden of re-conquest after the Mutiny, need not be elaborated any further.

CHAPTER III

Debt under the British Crown : Unproductive Debt

93. *The Aggregate of Debt Obligations Outstanding.*—I shall next consider the financial transactions of the Government of Indin since 1858. In order to understand properly the volume of these transactions and the obligations resulting from them, the annexed table of the aggregate Debt outstanding, both floating and funded, will serve to illustrate as well as to give point to the remarks following. Put into words: The total debt obligation as shown by this table is 1171'96 crores*. The table is taken from the advance copy of the Controller of Currency's Report for 1930-31. The figures are, therefore, as upto-date as it was possible to make them, since all the latest floatations have also been included, additional Treasury Bills to date of writing being alone not included. The figures so given include all the Debt the Government of India are liable for; and so comprise all items including the Debt Legacy coming down from the days of the East India Company. The last item having been already disposed of in the aggregate, the discussion in the present Chapter will necessarily be confined to the new Debt added under the direct government by the British Crown.

94. *A Different Classification of Obligations: Productive and Unproductive Debt.*—The classification adopted in the above table makes a distinction from the point of view of the country in which the debt is held, or the currency in which it is expressed. There is, also, underlying a distinction between the funded debt and the floating debt. But the distinction between the debt which is Productive, and the debt which is not Productive, is not indicated in the above division, except by the figures of Interest yielding assets. The figures represent the estimated value of these assets, as up to the end of March 1931. It will be noticed that the amounts mentioned as Capital advances to other Commercial Departments (23 crores), to provinces (149'14), and to Indian States (19'60. total 192'15) are not all, really speaking, debt which has created assets that yield a revenue sufficient at least for paying the Interest Charges and the Sinking Funds established in respect of these debts. The other Commercial Departments include the Post and Telegraphs principally. The debt on this account is not all strictly productive. The Provincial Debt includes outlay on Irrigation Works, which are, of course, truly productive assets. But not so the cost of New Delhi, or Bombay Development. In any case, out of a total value of 937 crores in round figures of the so-called productive assets, perhaps not more than 850 crores can be taken to be really productive, in the sense of yielding both interest and surplus sufficient to provide for capital redemption of the debt. The remainder of 325 crores in round terms is a dead weight charge.

95. *Figures only Conventional Compilations.*—It must be added that the foregoing distinction between the Productive and Unproductive Debt is only a conventional distribution that is made up by means of records from the Finance Department. Since the debt, as already remarked, is not specifically charged and connected with any particular assets, apart from the railway annuities, it is hardly possible to correlate precisely the several items as given in the above table. Nor does that table of productive assets really represent the full value of the capital investment in these assets. For example, a good proportion of the

***See table next page.**

STATEMENT XXIV.

(Reference paragraph 34.)

Statement showing the interest-bearing obligations of the Government of India, outstanding at the close of each financial year.

	31st March 1924.	31st March 1925.	31st March 1926.	31st March 1927.	31st March 1928.	31st March 1929.	31st March 1930.	31st March 1931.
In India—	(In crores	of rupees.)						
Loans (*a*) ...	358·81	370·38	368·29	374·44	372·25	390·73	405·10	417·85
Treasury Bills in the hands of the public.	2·12	...	...	...	7·59	4·00	36·04	55·38
Treasury Bills in the Paper Currency Reserve.	49·65	49·65	49·65	41·47	31·94	39·15	29·21	5·89
Total Loans etc. ...	410·58	420·03	417·94	415·91	411·78	433·88	470·35	479·12
Other Obligations—								
Post Office Savings Banks ...	24·79	25·64	27·23	29·51	32·67	34·49	37·13	37·08
Cash Certificates ...	8·42	13·12	20·96	26·68	30·70	32·30	35·00	38·44
Provident Funds, etc. ...	39·00	42·39	46·36	51·02	55·82	60·52	65·41	70·33
Depreciation and Reserve Funds ...	...	9·08	15·45	20·10	25·48	31·09	30·18	23·87
Provincial Balances (*b*) ...	4·17	4·83	11·87	10·49	10·48	10·43	10·21	6·11
Total Other Obligations ...	76·38	95·05	121·87	137·80	155·15	168·83	177·93	175·83
Total in India ...	486·96	515·09	539·81	553·71	566·93	602·71	648·28	654·95
In England—	(In millions	of £.)						
Loans (*a*) ...	244·53	(*c*) 263·39	(*e*) 266·35	265·09	272·32	283·31	289·03	315·97
War Contribution ...	19·27	18·81	18·32	17·81	17·28	16·72	16·72	16·72
Capital value of liabilities undergoing redemption by way of terminable railway annuities.	60·10	58·84	57·53	56·19	54·79	53·35	51·86	50·32
India bills ...	...	...	...	...	...	...	6·00	...
Imperial Bank of India Loans ...	...	...	...	...	...	...	...	4·05
Provident Funds, etc. ...	·13	·16	·21	·27	·19	·43	2·54	·70
Total in England ...	324·03	341·20	342·41	339·36	344·58	353·81	366·15	387·76
	(In crores	of rupees.)						
Equivalent at 1*s*. 6*d*. to the Rupee ...	432·04	454·93	456·55	452·48	459·44	471·75	488·20	517·01
Total Interest-bearing obligation ...	919·00	970·02	996·36	1,006·19	1,026·37	1,074·46	1,136·48	1,171·96
Interest-yielding assets held against the above obligations—								
(i) Capital advanced to Railways	537·02	(*d*) 578·05	(*f*) 605·61	635·46	668·60	700·69	730·79	745·29
(ii) Capital advanced to other Commercial Departments.	20·07	22·00	17·77	19·16	20·60	21·81	22·70	23·41
(iii) Capital advanced to Provinces	97·56	106·43	114·60	120·17	126·34	137·52	142·60	149·14
(iv) Capital advanced to Indian States and other interest-bearing loans.	8·93	10·16	11·84	12·11	13·91	15·49	17·65	19·60
Total Interest-yielding assets ...	663·58	716·64	749·82	786·90	829·45	875·51	913·74	937·44
Cash, bullion and securities held on Treasury account.	50·47	57·35	51·96	37·48	24·26	28·34	45·36	35·18
Balance of total interest-bearing obligations not covered by above assets.	204·95	196·03	194·58	181·81	172·66	170·61	177·38	199·34

(*a*) These figures represent the nominal amounts of loans outstanding and also include comparatively small amounts of expired loans which do not bear interest.

(*b*) The figures represent those portions of provincial balances which bear interest, either because they form part of the old Famine Insurance Fund, or the present Famine Relief Fund, or because they have been placed with the Government of India on fixed deposit.

(*c*) Includes the liability assumed by the Secretary of State for East Indian Railway Debenture Stock, aggregating £18½ millions on the termination of the contract with that Railway on the 1st January 1925. It therefore does not represent any increase in the foreign indebtedness of the country as a whole.

(*d*) Includes 27·07 crores on account of the liability referred to in (*c*) above.

(*e*) Includes the liability assumed by the Secretary of State for the Great Indian Peninsula Railway Debenture Stock, aggregating £3½ millions, on the termination of the contract with that Railway on the 1st July 1925, *Vide* also last sentence under (*c*) above.

(*f*) Includes 4·88 crores on account of the liability referred to in (*e*) above.

SINKING FUNDS created pursuant to Section 51 of Act 42 and 43 Vict. c.206. Section 2 (1) (a) of Act 44 & 45 of Act Vict. c. 53, Section 50 (b) of Act 47 & 48 Vict. c. 204 and Section 25 (2) of Act 48 & 49 of Act Vict. c. 25, and the application thereof.

	£328,462-1-2 East India Rly. Annuity.	£64,350 E. I. R. 4½% Debt Stock.	India Debt issued in redemption of: £22,311-10-0 E. B. R. Annuity.	India Debt issued in redemption of: £62,642 E. B. R. 4% Debt Stock.	India Debt issued in redemption of: £200,467-10-8 Sindh-Punjab & Delhi Ry. Annuity.	Total
India Debt created and issued under Acts 32 & 43 Vict. c.43, 44 & 43 Vict. c.53, and 48 & 49 Vict. c.25, in redemption of Liabilities charged on the Revenues of India:						
India 4% Stock (a)	5,115,938-15-0	...	...	...	...	5,115,938-15-0
,, 4% Re. Debt, Rs. 1,06,750 @ 18d. ...	8,006-5-0	...	...	...	...	8,006-5-0
,, 3½% Stock	2,235,168-11-8	48,168-0-0	:541,054-7-4	67,005-7-1	4,911,621-6-1	7,803,017-12-2
,, 3% Stock	215,242-15-2	32,597-6-0	...	708-0-0	...	248,548-1-2
India Debt created & issued ...	7,574,356-6-10	80,765-6-0	641,054-7-4	67,713-7-1	4,911,621-6-1	13,175,510-13-4
India Debt purchased and cancelled upto 30-9-30 : India 7, 5½, 4½, 4, 3½, 3 & 2½% Stocks ...	5,440,935-14-8	39,699-10-0	372,303-13-9	28,226-17-2	3,223,588-1-8	9,104,753-17-3
India 5½% stock purchased and cancelled during the half-year ended 31st March 1931 ...	57,383-14-0	1,105-8-5	3,783-0-0	908-18-1	35,078-14-9	98,259-15-3
	5,498,319-8-8	40,804-18-5	376,086-13-9	29,135-15-3	3,258,666-15-5	9,203,013-12-6
India Debt purchased and cancelled to 31st March 1931 :—						
India 4% Stock 262,870- 3-2						
3½% ,, 4,835,434- 3-10						
3% ,, 1,654,313-12-1						
2½% ,, 262,821-14-11						
7% ,, 214,535- 7-4						
5½% ,, 1,862,191-10-5						
4½% ,, 110,847- 0-9						
Balance of India Debt, issued as above outstanding on 31st March 1931	2,076,036-18-2	39,960-7-7	164,967-13-7	38,577-11-10	1,652,954-9-8	3,972,497-0-10

(a) India 3½% Stock was substituted by the balance of India 4% Stock in 1888.

railway enterprise in India has been built up out of current revenues, as also from the Famine Insurance grants. The capital figure shown above does not, probably, include this expenditure from revenue, which nevertheless must be assumed to have added to the total volume of the debt. For, had this revenue not been spent in these assets, the surplus represented by such revenue would have been utilised for the reduction or avoidance of the ordinary debt. Moreover, the reduction of the ordinary un-productive debt, as they used to do before 1913, did not always correspond to a reduction in the aggregate of the volume of debt charged on the Indian revenues. The only difference made was addition to the productive Debt, even greater than the reduction in the so-called ordinary unproductive debt. All these considerations go to show that the above figures must not be taken as anything more than the conventional estimates, though as conventional estimates they are useful in appreciating fully the financial position in India.

96. *The Rationale of Distinction between Productive and Unproductive Debt.*—The productivity or otherwise of a debt or financial obligation, is a distinction introduced, not only as a matter of convenience in treatment, but also because there is the obvious material difference caused by the presence or absence of definite assets, which, at a pinch, could be relied upon for charging and bearing the burden of the debt. So far as the so-called public debt of India is concerned, it is interesting to note that all Debt, productive or not, with or without assets to back it, ultimately and exclusively rests upon the credit of the indian Government, and its ability to squeeze sufficient amounts out of the peoples of India by taxation and other cognate methods to meet these burdens from time to time. **Except, possibly, the Railway, Annuities, no portion of this debt is charged specifically upon and secured by any definite property or enterprise of Government, or any particular branch of revenue.** The Acts of Parliament, or of the Government of India, relating to this Debt or any portion of it, making provision for the payment of the Interest or principal, make no mention of any specific asset as particularly chargeable for the Debt. Even the several Acts relating to the Government of India at large speak of these obligations in broad general terms, without assigning any particular asset for the fulfilment of any particular obligation. The doubt, therefore, which has previously been alluded to while considering the debt created by the East India Company,—as to whether, in point of law, strictly interpreted, the Indian territorial revenues are at all chargeable with these burdens; or whether, if these revenues fail for any reason to be adequate for the debt, the creditor has any claim on the assets and property of the Indian people, may be repeated in this connection as well. Even when the revenues of India are made generally chargeable, the charge cannot lawfully be made in any year in which the ordinary revenues do not suffice to bear the burden of the existing debt; for the "revenues of India" cannot, in strict equity, be made to include borrowed monies, borrowed because these revenues have failed to be adequate.

97. *India's Case does not rest only on Legal Technicality.*—The case, however, which is to be considered under the present Reference, does not rest on such technicalities of legal construction and interpretation. It has been advisedly based on those broad principles of substantial justice between one people and another, the growing respect for which is the distinctive feature of interpopular relations in modern civilised society. The point is only repeated as a not insignificant curiosity of India's politico-legal conditions under the British rule.

98. *Groups of Unproductive Debt.*—Taking now the unproductive debt incurred during the period of the direct administration of India under the British Crown, (1858-1931), we may consider that debt under five main headings, under which it has been incurred or occasioned; (A) The first most considerable divi-

sion of such debt is that caused by Wars. This group may be further sub-divided into: debt due to (*a*) internal wars within the political entity called India, or on its Frontiers, and (*b*) debt caused by foreign wars and expeditions, outside, and beyond the Frontiers of India. (B) The second group will include all debt occasioned or traceable to relief of distress in times of famine. (C) The third group comprises debt due to loss on account of Exchange—a perennially fruitful source of Budget difficulties and indebtedness in consequence,—as also on account of deficits in the ordinary Budget. (D) The last group of such debt is the result of mere financial mismanagement or incompetence resulting in ordinary Budget deficits that we cannot trace directly to any single factor; and this also accounts for no small proportion of the obligations making up the aggregate of unproductive Debt Charges borne by India, for Civil or Military administration of British possessions outside India; or for the safeguarding of British interests, which ought also to be regarded as having created a hiatus in India's ordinary finances that led to proportionate debt of a wholly unproductive character.

II.—War Debt: Before 1914.

99. *War Debt from 1858-1914.* (*I*) *Burma.*—As to the Wars, let us take them ,for convenience' sake, into the two main classes of Internal and External Wars. The most important item inthe first group of Wars is the one which resulted in the conquest and annexation of Burma in 1886-87. The considerations applicable to this matter, in so far as they added to the debt as well as the territory of British India, have already been dealt with. But having regard to the possibility of Burma being separated, the matter cannot be left there, without further examination. If ultimately, as the result of the next Conference, Burma is converted into a separate Dominion, there can be no question, I submit that the costs of the Burmese wars should be borne—not by India. Whatever adjustment is made on this point between Britain and Burma, India cannot, in justice, be charged with these costs, especially after Burma is separated from this country. In the event of such a separation, a further claim by India would naturally arise by reason of the deficits which the Indian revenues bore for the balance of Burma's ordinary administration, including its economic development, ever since its annexation, since those deficits were met out of Indian revenues. If Burma is allowed to remain a part of the new Indian Dominion, these deficits may be regarded as an outlay, for which India as a whole would gain a compensating benefit in course of time by the development of the resources of Burma. But, if Burma is separated, the dificits hitherto incurred should be refunded to India, their burden being borne by the separated Burma, or by Great Britain. Further in the event of such separation, Burma should be charged with its own proportion of the cost of India's defence, which is not included in the ordinary provincial Budget, since the date of the annexation to the date of the separation.*

* On the close of the first Burmese War of 1824-26, the Burmans paid an indemnity of one million sterling under the terms of the Treaty of Ava, in addition to the cession of the two districts of Tenaserim and Arakan. On the conclusion of the Burmese War of 1852, the Burmans ceded the districts of Pegu under the Treaty of Rangoon. The costs of the three Burmese wars may be put down at Rs. 19 crores (13, plus 1, plus 5) in round terms; from which may be deducted the value of the cash indemnity received (one crore), as also the value of the districts ceded or annexed. The latter, however, was a minus quantity for a long time to come, as also the whole of Burma after its annexation in 1886,—and so a drain upon India. The net cost to India of Burma, as before, after deducting the local Revenue of Burma from its local expenditure, was Rs. 14,85,43,575, upto 1906-07, by which time the two sides had begun to balance. But this does not include Burma's share of the Military Budget, though it includes the Military Defence cost incurred in Burma itself, upto 1895-6 which was Rs. 8,65,56,500; nor does it include the cost of the economic development of Burma, as represented by the Interest and deficit on Railway Account. Perhaps an aggregate loss of Rs. 10 crores in round terms on this account would not be excessive. The cost of the Bhutan War is relatively a trifle. (See Welby Commission Report, and Sixty Years of Indian Finance, p. 118).

100. *Aggregate on account of Burma Claim.*—The claim on this combined account would aggregate as follows :—

		(*In crores of rupees.*)
1.	Cost of Burma Wars	18
2.	Net deficit in Burma's Administration since 1886–87 ...	15
3.	*Pro Rata* charge on Burma for Defence for 45 years average of Rs. 1 crore per annum	45
4.	*Pro Rata* charge for Economic Development—particularly Interest on Burmese Railway Capital	22
	Total ...	100

101. (*II*) *Frontier.*—The Frontier expeditions, which have resulted in the annexations that make the present North-Western Frontier Province, have, besides adding to the then existing debt, added fresh burdens to India's normal expenditure, the hiatus and deficit occasioned in which, by such extra burdens, escapes attention. Hence, when a budget deficit occurs in ordinary times, after such annexations, one fails to connect that deficit with its true cause; and explains it on the ground of ordinary financial failure, or shortage. The inclusion of a lot of Tribal area in the newly created North-Western Frontier Province (1901), and the necessity to give large subsidies to Tribal chiefs to keep them at peace, makes for such increase in the normal expenditure of the country as a whole, which ultimately occasions a Budget deficit when some new strain is placed on its finances that could have, in the absence of these burdens, easily met the additional strain without borrowing. It is a moot point whether the frontier expeditions, punitive or acquisitive, were at all undertaken for the real benefit of India; whether they were not, in a great part at least, dictated by considerations of the British Imperialist necessities. In so far as these extensions of the Indian Frontier were made in response to British Imperialist exigencies, India should not, in justice and propriety, be burdened with the costs of these acquisitions, nor for such portion of the additional burden as may be shown to be due to the deficit in the cost of their civil administration, economic development, political entanglements, and military defence.*

102. *Extra-Indian Wars and Expeditions.*—In considering the obligations cast upon India on account of the wars waged or expeditions made beyond the geographical and political frontiers of this country, the general principle for assessing India's liability in this regard must be made quite clear. These wars are in no way of India's creation; nor have they in the least bit been for India's benefit. They are all British Wars for the protection of British interests, the promotion of British trade, or the prosecution of British Imperialist designs. Why should India pay anything for such wars, whether they happen to be just beyond her frontier,—as the Second Afghan War of 1879-80,—or take place in the remotest corner of the world, like South Africa or the Western Front in the European War? India must categorically decline any liability for these wars, and summarily demand a refund for whatever charges have been cast upon her on such account.

103. (*III*) *Extra-Indian Expeditions.*—Among the Expeditions outside India, carried out during the government of this country under the British Crown

* The aggregate cost to the Indian Exchequer on account of the N. W. F. Province, from 1901-2 to 1914-15 has been calculated at Rs. 5·34 crores. (Cp. *Sixty Years of Indian Finance* p. 118). This does not include a *pro rata* charge for the Military Budget on account of this province.

directly, the following table shows the basis of apportionment of the costs, as between India and England, of each such Expedition.*

(*N. B.*—The sub-joined Table is prepared from the Welby Commission Report, Vol. II., p. 305 and Vol. IV., p. 111.)

Year.	Expedition.	Charges borne by India.		Charges borne by Britain.		Reference.	Present claim of India.
		Ordinary	Extra.	Ordinary	Extra.		
1859	3rd China ...	None.	None ...	All.	All, ...	...	None.
1860	New Zealand...	"	" ...	" ...	" ...	Vol. III 347	?
1863	Bhutan War ...	All.	All ...	None.	None ...	Budget, April 1865.	None. (cost £160,000)
1867	Abyssinia ...	All.	None ...	" ...	All ...	Vol. III, 23	£600,000
1875	Perak ...	"	" ...	" ...	" ...	...	£41,000.
1878	Malta ...	None	" ...	All ...	" ...	...	None.
1879-81	Afghan War ...	All	All but £5 million.	None	£5 million	...	£17,500,000
1882	Egypt ...	"	All but £½ million.	" ...	£½ million	...	£1,250,000
1882-92	Minor Frontier Wars	" ...	All ...	" ...	None ...	Vol. I. 222 & IV. 187	£13,000,000
1885	Soudan ...	" ...	None ...	" ...	All ...	...	
1886	Burma War ...	" ...	All ...	" ...	None ...	Statistical Abstract.	£4,705,000
1896	Suakim and Sudan.	" ...	None ...	" ...	All ...	Vol. II, p. 23	£200,000
1900	Tibet ...	...	...	...	...	...	
1901	Boer War ...	None	None ...	None	None ...	...	None.

Total claim in respect of all these Wars and Expeditions ... £37,396,000

104. *Distinction between Ordinary and Extra-ordinary Charges.*—In this Table, a distinction is made between the Ordinary and Extraordinary Charges of sending Indian Troops to fight beyond Indian frontiers the battles of the British Empire. The claim on behalf of India is made with reference only to the Extraordinary charges of such extra-Indian expeditions. The *rationale* of this distinction lies in the assumption that the normal, ordinary charges of these troops India would have had to bear in any case, even if there had been no Imperial war to give them occupation; and so that country should continue to bear these Ordinary Charges. The Extra-ordinary Charges, on the other hand, are clearly the creation of the Imperial exigency; and as India helps in tiding over such an Imperial difficulty, she should at least be relieved of the extra-ordinary burdens resulting from such expeditions beyond her own frontiers and overseas. Britain, though she has made India bleed white, again and again, in her Imperialist wars, has not always paid even these extra-ordinary charges,

* The force of this plea will not be perceived, unless one remembers the provisions of the Government of India Act 1919, ss.20-22, reproduced from the Act of 1858, which preclude the use of Indian troops outside the frontiers of India, without the consent of Parliament. The readiness with which Parliament has granted the consent may be taken as an illustration of the manner in which that body has discharged the Trust, created by its own Act, in regard to the government of India, and not as an exemption to Britain from all responsibility for these obligations, merely because Parliament sanctioned them,

though the logic which would confine India's claim only to these extraordinary charges is itself misleading, and unjust to India. Many of these Overseas and Trans-frontier Wars were admittedly of British Imperial dictation and necessity. Under the express provisions of the Acts of Parliament, Indian troops cannot be employed outside the frontiers of India without the consent of Parliament. And though that consent has, in times past, been readily granted, that does not exonerate Britain from bearing the *whole cost*, and not merely the extra cost, of her own ambitious wars. The cup of injustice, however, overflows when they make India pay *all* the charges, both Ordinary and Extraordinary, of military operations beyond her frontiers, which were dictated by British Imperial considerations. They have done so in the case of the Afghan Wars, with the small exception of a solitary contribution of £5 million towards the cost of the Second Afghan War made to the burdens of India by the Liberal Government of Mr. Gladstone. That contribution but recognises the principle of India's claim. It does not give complete satisfaction, because it does not relieve her from all the burdens directly resulting from the Second Afghan War, without taking into consideration the increase in India's "normal" expenditure resulting from that legacy. If, therefore, we make a claim, as we are fully entitled to, under the spirit if not the letter, of the Parliamentary enactments, for the aggregate cost of the extra-Indian wars and expeditions, our bill against England would be much greater than the £37,396,000 shown in the preceding table, without including the whole of the Burma account.

105. *British Statesmen support this Claim.*—British Statesmen themselves, when in charge of India, were not unaware of this injustice; and have made their claims for India in no uncertain terms. The case made out by Lord Northbrooke, once a Viceroy in India, before the Welby Commission, for relieving India of charges like those in connection with the Afghan Wars, is too classic to be omitted, at least by way of a mention. Even less sympathetic persons, like the late Lord Salisbury, sometime Secretary of State for India, held the view that India ought not to be made to bear even the Ordinary costs of such Overseas Expeditions as that in Abyssinia. Said His Lordship:—

> "Having regard to the future, I do not like India to be looked upon as an English barrack in the Oriental seas, from which we may draw any number of troops, without paying for them. It is bad for England, as it is always bad for us, not to have that check upon the temptation to engage in wars which can only be controlled by the necessity of paying for them."

On a later occasion, the then Secretary of State in a letter dated 9th August 1872, to the British War Office, a Department of the British Imperial Government, which knows better than any other how to make preposterous claims and how to get them accepted, since India has had no one to speak for her, after enumerating the occasions on which India was called upon to supply troops for British Imperial wars, said:—

> "It is certain that all those wars were dictated entirely by Imperial Government, and that the interests of the British commerce, the grievances of the British merchants, or honour of the Crown, were the determining considerations in them all."

106. *Government of India support Claim in principle*—The force of the arguments, like these, was, however, lost upon those who were determined not to be convinced. The great guns of the British War Office treated the protests from India as so much waste-paper. The Government of India, who made out these claims, and have been urging some of them ever since the Government of the country was transferred to the British Crown, even as their predecessors, the Directors of the East India Company, were wont to do in their time, failed to see that: because India could, on every occasion of Imperial necessity, send her troops to fight the wars of the Empire, without endangering her own frontiers,

she must habitually be keeping a much larger number of troops and material than she really needed for her own defence. Had it not been so, there could have been no surplus to spare for the prosecution and realisation of Britain's Imperial ambitions. But, because India keeps habitually a larger military force, with better equipment and organisation, than she requires for her own protection, she ordinarily incurs every year an extra charge beyond her own needs. Why must she thus bear regularly a part of Britain's imperial burdens? And even if she must bear an extra burden in normal times, because she is a part of the British Empire, why must she be charged with the ordinary costs of that portion of her regular troops, which, from time to time, have been engaged in Imperial wars beyond the frontiers of India? Why should she not make a small saving to her own overburdened exchequer, because of such a chance to find foreign employment to her surplus army?

107. *Amount of Claim for Refund.*—If these charges were refunded to India, as they ought in justice to be, India's bill for refund, or counterclaim against Britain, would be substantially larger than the 37 odd million sterling mentioned above. Britain's own example, on the converse side of the case, is very different from her practice towards India. Whenever Britain has sent her own troops to aid in the British Government's Indian quarrels, as in the day of the so called Mutiny, she was careful to charge to India, not only the Ordinary as well as Extraordinary costs of the British troops sent to protect and preserve Britain's Indian Empire, but all the Transport charges, together with an additional lump sum, calculated to make up for the cost of training these troops for six months before sending them to India, including, of course, the pay etc. during this period of training of these troops. Now, observe carefully, the economy of this arrangement. Britain maintains a strictly limited and voluntary professional army,—limited by considerations of her own island defence. A professional Army, like Britain's, is, *ex hypothesi*, a trained force, just as India's professional army is another trained force. If Britain should ask India to compensate her for the loan of her professional troops from her own standing army, at a time when she does not need these troops for her own immediate needs, and demands also six months' cost of training these trained troops, she is acting worse than any Shylock towards India. To India, when the tables are turned, Britain in like cases gives no other compensation beyond agreeing to bear, at times, only the extra charges of such loan of troops, not even including transport in some cases. If England sends troops to aid the Government of India, she is doing no more than what is strictly necessary for the preservation of her own Empire! Yet she charges India with the WHOLE of the cost, ordinary, extraordinary and transport expenses of such loans, together with the premium of the kind mentioned above. When India lends her troops to Britain, she only aids in strengthening or preserving the British Imperial dominion on herself, which has not stood for her own immediate benefit! Yet India is not to be given the ordinary charges of these loaned troops, and much less any premium! Can the force of injustice further go?

108. *Summary of Aggregate Claim.*—Before I quit this subject of the charges of Extra-Indian Wars and Expeditions, I would give the following table from the Welby Commission Report, Vol. III, included in Sir Henry Waterfield's evidence and compiled from Col. Hanna's *Backwards & Forwards*, which shows **an aggregate of some 71½ crores of rupees as being unjustly charged to India.** This table tells its own tale. Some small portion of the 37 millions odd of the previous table is included in this, but not the major part. However, we may take the whole of this item to aggregate about 90 crores of rupees in round figures; and be very moderate in estimating the counterclaim, or evaluating our demand for refund of charges, costs, or debts unjustly thrust upon us.

Table showing expenditure on wars beyond the Indian Frontiers.

Statement showing approximate cost of the forward policy on the North-West Frontier, up to 1896, including the Afghan War of 1878–79–80.

		Rs.	
1.	The Afghan War	223,110,000*	Sir Evelyn Baring, Financial Member of the Viceroy's Council.
2.	Military Railways on the North-West Frontier since the War.	163,967,910†	Administrative Reports on Railways in India.
3.	Baluchistan Agency since the War. Government Allotment, Rs. 865,600 per annum for 16 years.	13,849,600	Moral and Material Progress of India, 1893–94, p. 157.
4.	Special grants to Baluchistan Agency:— Reservoir in Pishin Rs. 261,240; Quetta Water Works Rs. 499,000; Buildings at Quetta Rs. 374,000	1,134,240	Financial Statements: 1889-90, p. 15, para. 31. 1891-92, p. 23, para. 16. 1892-93, p. 32, para. 84.
5.	Lease of Quetta District, and subsidy in lieu of right to collect tolls in the Bolan Pass since 1885.	715,000	Progress and Condition of India, 1891-92, p. 15.
6.	Preparations for War with Russia in 1885.	22,880,710	Official Estimate. Return dated India Office, 8th June 1894.
7.	Special Defence Works on Frontier and Rawalpindi.	30,000,000‡	Approximate.
8.	Military Roads on North-West Frontier; expended principally on the Dera Gazi Khan and Pishin Road.	2,000,000§	Financial Statement, 1888-89, p. 10.
9.	Afghan Boundary Commissions.	1,700,000	Financial Statements, 1885-86, p. 22, para. 52; 1894-95, p. 27, para. 118.

*Five millions sterling were contributed by the English Exchequer to the War expenses.

†Provision is made in the Budget Estimate for 1926-27, for a further sum of Rs. 4,954,000 to be expended on these useless railways.

‡"A large sum has been spent on defences and military establishments at Quetta, including advanced position covering the place, strategic roads, defences for various bridges, tunnels, &c., on the Sind-Pishin Railway.........An entrenched position has been formed at Rawalpindi, and a defensive post at Multan."—"Indian Finance Statement for 1896-97."

§This sum only represents a small portion of the money expended on military roads in Baluchistan and other places beyond the Indus, as large sums are annually disbursed by both the military and civil departments in building new roads and maintaining the old ones.

	Rs.	
10. Permanent Increase of Indian Army in 1885-86: A. 10,753 British Troops Rs. 95,809,200 B. 19,200 Native Troops Rs. 65,924,600 C. Deferred Pay of above British Troops Rs. 553,000	162,286,800	Official Estimate. Return dated India Office, 8th June 1894.
11. Increase in the Native Pension Establishment, due to the Afghan War, Waziri and Chitral Campaigns and other Expeditions on North-West Frontier.	18,591,300	Approximate.
12. Cost to Government of Imperial Service Troops.	1,400,000	Progress and Condition of India, 1894-95, p. 169.
13. Re-establishment and Maintenance of British Agency at Gilgit. (*a*) For three years at the rate of Rs 50,000 a year. Rs. 150,000 (*b*) For four years, at the rate of 200,000 a year. Rs. 800,000 (*c*) Special Grant 90,000 (*d*) „ 481,500 (*e*) Transport 784,000 (*f*) „ 300,000 (*g*) „ 400,000	3,005,500	Blue Book, Chitral, p. 20. Financial Statements. 1893-94, p. 7, para 11. 1894-95, p. 21, para 83. 1893-94, p. 7, para 11. 1893-94, p. 13, para 24. 1894-95, p. 28, para 121.
14. Re-occupation of the Kuram Valley in 1892-93, at Rs. 450,000 per annum, for three years.	1,350,000	Financial Statement. 1893-94, p. 7, para 11.
15. Grants for so-called Mobilisation. (*a*) 1889 Rs. 2,035,000 (*b*) 1890 „ 600,000 (*c*) 1891 „ 2,134,000 (*d*) 1892 „ 616,000	5,385,000*	Financial Statements. 1889-90, p. 24, para 57. 1890-91, p. 8, para 12. 1892-93, p. 8, para 13. 1892-93, p. 32, para 84.

*Provision is made in the Budget Estimate for 1896-97, for Rs. 4,949,000 for preparations for mobilisation of the Field Army.

		Rs.	
16.	Additional Transport Animals, Re-mounts, and Mules. (*a*) 1891 Rs. 1,321,000 (*b*) 1893 „ 267,000 (*c*) 1894 „ 237,000	1,825,000*	Financial Statements. 1892-93, p. 8, para 13. 1894-95, p. 6, para 9. 1894-95, p. 28, para 121.
17.	Rise in price of food, forage, and increase of number of animals to be fed : (*a*) 1889 Rs. 795,000 (*b*) 1892 „ 1,500,000 (*c*) 1893 „ 700,000 (*d*) 1894 „ 490,000	3,485,000	Financial Statements. 1889-90, p. 24, para 57. 1893-94, p. 7, para 11. 1893-94, p. 27, para 63. 1894-95, p. 28, para 121.
18.	Expeditions on North West Frontiers since 1888-89.	5,075,680	Official Estimate, Return dated, India Office 8th June 1894.
19.	Minor operations (not scheduled) since 1884-1885.	3,239,100	Official Estimate.
20.	Waziri Campaign, including cost of Delimitation Commissions, Fortified Post and Tochi Cantonments.	3,824,000	Financial Statements. 1895-96, p. 15, para 50, and p. 56, para 200. 1896-97, p. 34, para 132.
21.	Chitral Campaign, including occupation of Chitral during past and present year.	21,500,000	Financial Statement. 1896-97, p. 7, para 11 and footnote.
22.	Khyber Rifles raised after the War.	1,398,240	Progress and Conditions of India, 1891-92, p. 17.
23.	Subsidies— A. Amir of Afganistan Rs. 21,000,000 B. Khyberies Afghanistan since the War Rs. 1,400,640 C. Ruler of Chitral and his brothers Rs. 60,000 D. Gomal Chiefs since 1890 Rs. 296,760 E. Other small Chiefs on North-West Frontier Rs. 100,000	22,857,400	Thirteen years at 12 lakhs. Three years at 18 lakhs. Progress and Conditions of India, 1891-92, p. 17. Chitral Blue Book, pp. 9 and 13. Progress and Conditions of India, 1891-92, p. 17. Progress and Condition of India, 1891-92, pp. 16 and 18.
	Total Rs.	714,580,480	[*N.B.*—The amount on account of Burma, Rs. 100 crores in round terms, is not at all included in this.]

* The maintenance of the Transport Branch of the commissariat Department cost in 1893-94, no less than Rs. 3,408,140 ; yet in the following year, it broke down when called upon to provide carriage for the Division of 15,000 men mobilised for the relief of Chitral.

III.—Claim on account of the European War 1914-18.

109. *The European War of* 1914-18.—The burdens thrown on India by the European War of 1914-18 demand particular attention, as much because of the principles involved, as because of the vastness of the amount concerned. In this struggle India made a herculean effort for helping Britain, in a variety of ways. The full significance of this aid rendered is hardly realised from a mere perusal of the official documents. This was a war, it must be noted at the outset, which Great Britain joined, ostensibly to maintain the neutrality and independence of Belgium, which Germany had violated, and which Britain—along with several other European powers—had guaranteed by a Treaty made in 1830. India was not a party to that Treaty, and so neither her honour nor her interest could be said to be involved by any stretch of imagination. If we pierce through the crust of outward professions, and search into the real causes of this conflict lying at the bottom, we find the War of 1914-18 to be due to Britain's jealousy of Germany caused by the latter's rapid advance in naval armament, threatening Britain's supremacy of the seas, and endangering her overseas commerce, which supplied the life-blood of British industrial prosperity. This, also, was a purely domestic concern of Britain, in which India could not possibly be said to have any interest of her own. The Afghan imbroglios may more justly be said to be fraught with consequences of concern to India, at least remotely; for the unchecked progress of the old Russian Tsarism on the borders of Afghanistan had an implicit threat to the established order in India. But, even so, we cannot admit that India should be charged, in justice and propriety, for fighting this remote danger, which was indisputably the outcome of the British Imperialist ambitions and rivalries, coming to a clash with another Imperialist power of Europe at the point of contact and conflict on the borders of a common buffer. If, therefore, we disallow, as we must, any liability to India for fighting Britain's Imperial battles in Afghanistan, much less can we admit any liability whatsoever for this European War, merely because the dimensions of the struggle were very large; and, consequently, because of the fear that a stray spark from this world conflagration might set ablaze the forces of disorder and anarchy in this corner of the world so remote from the centre of the conflict.

110. *India received no Benefit from it.*—Not concerned in the origins of the European War, India was not benefited in any way by the consequences of that struggle, and of the Peace following upon it. On the ground of benefit derived, also, there seems no reason why India should be burdened with any part of the cost arising out of that War. Britain has, as the result of that War, found her heart's desire, so far as her dread of German naval or commercial rivalry was concerned. Germany has been crippled, disarmed and burdened with heavy obligations by way of Reparations for damage done. Her navy is gone, and her colonies taken away from her. Her best markets are sought to be appropriated for themselves by her erstwhile enemies, who, however, have not proved equal to the Germans in economy, inventiveness, or hard work. But in all this, what does India get? Does she get a slice of Germany's pre-war economic advantages? Does she benefit by the disarmament of that country? The answer in either case is a categoric negative. Then, why should India bear any part of that burden? England has helped France, her ally, to charge Germany with a Reparation Bill, in which the very rapacity of the Allies has served to frustrate their ends. Germany cannot pay Reparations to France, without dealing a fearful blow to the world trade of Britain; and it is far more important to Britain to maintain her trade than to secure from Germany the pound of flesh that her ally, France, still insists upon. The Allies have, therefore, parted company, on this question of making Germany pay for the War, simply because they cannot see eye to eye as regards the ways and means of exacting this payment. But in all this, again, what is India's gain? Where lies her interest? While there was any chance of

Reparations being obtained from Germany, India was to be given a small fraction of the share received by Britain, hardly 2% of the total. And now that Reparations from Germany are being scaled down by ¾ or more of the original figure fixed by the Versailles Treaty, India must needs submit to seeing her share vanish entirely in thin air. She has no say in all these mutations of the Versailles Treaty. France, disappointed in her search for indemnities from Germany, compensates herself by a corresponding reduction of her obligations to the United States and Britain. The former country has allowed to France and Italy a reduction in their War time obligations to America, exceeding 80% of the original total. Britain has expressly enunciated, in the famous Balfour Note, her own policy in this regard to the effect that: she would exact from her debtors, not the full value of their bond, but only that much as would suffice to make good her own obligations to the United States. The balance of her dues from her former allies and present debtors, Britain is pledged to forego altogether. And yet, even this principle of relief is not to be applied to India. No remission is to be accorded to India—not, be it noted, in respect of any contractual obligations, such as Britain's Allies had incurred to her—but of the "voluntary" burden the British Government of India have imposed on this country in order to help Britain in her hour of need, as regards any part of the burden borne by India in connection with the European War.

111. *The Volume of the Burden Imposed.*—Let us now consider the magnitude of the War burden imposed upon India owing to this War. We shall give figures,—approximate, where we cannot find actual figures,—hereafter. But let us first try and understand the large variety of ways in which India has helped Britain in the last struggle, and what return Britain has made for that help given by India. (1) India sent practically *all her trained troops* to France right at the outbreak of the War, so that at one time she had not for her own border defence and internal security more than 30,000 troops of all arms—a situation of risk and danger unparalleled since the dark days of 1857, if even then. What precisely this risk meant to India, no one has cared to—perhaps because no one can—evaluate in money. Even when we got substitutes for our trained troops sent to France, the substitutes were only raw, untrained, ill-equipped levies of British Territorials, who could not possibly compare to our trained soldiers in efficiency, though they were twice or thrice as costly to India as the Indian troops they replaced. (2) India, next, raised, equipped, and dispatched large numbers of additional armies,—with all their auxiliary accompaniment of man and beast and machine,—to several minor theatres of the War in Africa, Europe, and Asia. These brought the most welcome relief to the hard pressed armies of Britain on the main Western Front, and caused the most valuable diversion to the enemy's resources. The exact value, however, of this help, again, has escaped pecuniary computation, though the money value of this burden on India is not difficult to assess. (3) As though all that was not enough, India made a substantial money contribution,—paid partly out of loans raised in India, which helped materially to ease the growing strain on the Indo-British Exchange,—to the disadvantage of India, of course; and partly by taking over proportionate burdens of Britain in the War. This is a clearly measurable—and measured—money contribution; so there can be no dispute about its valuation. We shall, however, indicate below some considerations why we think the monetary burden of this gift to Britain is far greater in real values to-day than it seems in the simple money accounts.

The Continued Legacy of India's War Contribution.

112. Over and above this monetary gift, India largely inflated her "normal military and civil expenditure, as the direct consequence of this War, which she has nevertheless borne ever since. The presence of these additional burdens upon the Indian Exchequer led, in the five years immediately following the European War, to defi-

cits in India's ordinary Central Budget, which occasioned corresponding increase in India's burden of Debt that must necessarily be accounted for as a War legacy. This also is capable of a clear monetary evaluation as will be shown below. There is, besides, the heavy loss in regard to surplus War Stores left over at the end of the War, which resulted because the Stores had been purchased, recklessly as to quantities and price, under the influence of the War, which could not but end, after the War, in heavy depreciation and loss. (4) Lastly, there is the indirect harm done to India, by that horde of regulations governing India's foreign trade during the War, the exact effect in money terms of which it is, again, difficult to assess. Those regulations or restrictions had a dual aim: On the one hand they were aimed to curtail India's foreign trade, which might even remotely help the enemies of Britain,—a not illegitimate aim; and, on the other, they were designed to limit the demands for currency upon the Government of India, which were finding themselves increasingly embarrassed on account of Exchange, after 15 years of comparative quiet in that direction. The War gave an intense, though artificial, stimulus to India's exports; and as the same cause had tended to restrict imports, the balance of trade in favour of India was increasing by leaps and bounds. This balance was further inflated by expenditure defrayed by the Indian Government out of Indian funds, on account of the several side shows conducted by them on behalf of the British Government. All this made the Rupee more than ever in demand. As its Exchange value in terms of Sterling rose, Government were bound in honour to maintain it at 16*d.* as undertaken in 1898-99. But when the coinage of the Rupee no longer brought them the huge profits they were accustomed to, they disowned the arrangement made by themselves in 1898-99. Even so, a recourse was open to Government, which would have saved them embarrassment, and at the same time helped forward India's economic development,—had they ever paid the slightest attention to the true interests of India, even when they were not in conflict with those of Britain. At a time when the Exchange value of the Rupee was soaring, and the balance of accounts in favour of India so high, they could have easily bought out the £200 million worth of India's Sterling Debt on easy terms; converted that into Rupee Debt; and so saved themselves a great deal of financial embarrassment and discredit attaching to the currency and exchange blunders of the Indian Government, and the country at large immense loss and damage, from which it has not even now been rescued. But the Indian Government either did not or would not see where India's true interests lay. Their much advertised Civil Servants did not, or could not, grasp the significance of the American example, happening before their eyes wherein America showed to the world how a trade boom of the War time could be utilised for national benefit, by buying up, on favourable terms, a country's foreign obligations through this means. Instead, the Indian Government raised loans in India to remit to England, and so added new burdens to the volume of India's foreign indebtedness! And still they call their governance of India a trust for the benefit of the Indian people!!!

113. *Money value of India's War Contribution.*—Let us now examine the actual value of those aspects of the service rendered by India to Britain during the world-war, which are capable of a monetary computation; and give exact figures, wherever we can, on other connected matters. In a despatch from the Commander-in-Chief, of July 1919, His Excellency gives the following figures showing the extent of India's contribution in terms of men.

> "On the outbreak of the War the combatant force of the Indian army, including Reservist, was 194,000 Indian ranks. Enlistments during the War for all Branches of service amounted to 791,000, making a total combatant contribution of 985,000. Of this number, 552,000 were sent overseas. As

regards the non-combatant, the pre-war strength was 45,000, and additional 427,000 were enrolled during the War, and 397,000 were sent Overseas. The total contribution of Indian personnel has thus been 1,457,000 men, of whom 953,000 have served Overseas. Casualties amounted to 106,594, which include 36,696 deaths from all causes. The number of animals sent Overseas was 175,000."

What precisely this contribution means in money, it is impossible to estimate exactly. But the following totals of the Indian expenditure on defence by India in the eight years, 1914–15 to 1921–22 would be instructive.

				Rs.
1914–15	...	...	...	30,80,53,000
1915–16	...	...	...	33,39,20,000
1916–17	...	...	...	37,48,62,000
1917–18	...	...	...	43,56,47,000
1918–19	...	...	...	66,72,03,000
1919–20	...	...	...	86,97,76,000
1920–21	...	...	...	87,38,13,000
1921–22	...	...	...	69,81,04,000*

(*a*) If we take the normal or standard military expenditure, required for the defence of India exclusively, at the 1914–15 figure of 30·80 crores per year net, in the five years during which the war continued, there was an excess over standard of Rs. 115 crores in round terms. India bore all that, though she was not bound to. The War effects continued for two years after the War, during which there was a further excess over the standard charge, in Defence Expenditure alone, of Rs. 95·59 crores, or an aggregate excess over the pre-war standard Rs. 210 crores in round terms. The Defence Expenditure was then reduced; but it has continued to be at a very enhanced figure, practically double of the standard figure of 1914–15, ever since. In this calculation, however, I do not include the excess over the standard pre-war Defence Budget ever since. These figures indicate some measure of the extra burden, which, owing to the European War, India took upon herself, and passed into her normal defence expenditure; and which escapes our attention altogether, so far as the computation of the contribution towards Britain's struggle in the European war is concerned. (*b*) This also, it may be added, does not take any account of the increasing civil expenditure of the Central Government, a great deal of which increase was really due to war and was of a semi-military character. The total expenditure increased between 1914–15 and 1918–19 from £87 millions to £106·14 millions. Even if we calculate the four War Years' increase in civil expenditure at Rs. 50 crores; and take only half in that as directly in aid to the war contribution, that would amount to 25 crores. (*c*) The above also does not include the interest on account of War Loans and the increased indebtedness created in this period. Let us only speak of the extra military burden upon India of Rs. 215 crores, cast by the European War, which ought never to have been charged upon India; and which ought to be re-imbursed to India, by Britain who received the whole benefit out of the arrangements under review. Even if India should be refunded simply this amount, without any interest, that would be an act of the merest justice and

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fairness, which the self-made trustee—Britain—for the Indian people should not show itself lacking in. *

114. *Special War Contribution.*—Not content with paying all the ordinary normal charges, including the Transport costs, of India's expeditionary forces sent in aid of the British Army in France and in other theatres of the War Overseas ; not content also with paying the increased charges to the British Territorial troops in spite of diminished numbers of these troops serving in India during this period ; † the Government of India decided in 1917, on their own executive authority, to make a special war contribution of 100 million sterling. Eighteen months later, this was increased, roughly, by another £45 millions, this time with certain conditions. As the payment of troops etc., employed in services outside Indian frontiers is not allowed under the terms of the Government of India Act, (Section 22), except on a resolution by Parliament, both Houses of Parliament passed the necessary resolution to validate this arrangement. ‡ In January 1917, the Viceroy sent a telegram to the Secretary of State, offering to place the whole of India's credit and taxable capacity at the disposal of the British Government, to be utilised by them for the prosecution of the War, as they thought best, subject to the limit of this special contribution upto 100

*In addition to the foregoing, India defrayed, on account of the British Government, roughly £260 millions worth of War and connected expenditure in Mesopotamia and other theatres of War, in the four years 1914-15 to 1918-19. The actual figures given in the several Budgets are as under :—

		Million sterling.
	1915-16	... 18·6
	1916-17	... 38·5
	1917-18	... 65·00
R. E.	1918-19	... 99·83
B. E.	1919-20	... 42·31
		264·24

This was, of course, recovered from Britain, in a large measure at least. But its service to Britain—free of interest loan—is not inconsiderable. At one time as much as £93 million of Indian Government money was invested in British Government Securities,—which came in very handy during the disastrous Currency experiment of 1920. Even allowing for the Home Charges during this period, the net excess of India's credit was about 381 crores, which was not utilised to buy out India's foreign liabilities as they would have been able to do ; but instead the emergency was used to fasten upon India new burdens in the shape of loans raised to meet the promised war contribution.

† See Budget of 1916-17, para. 14.

‡ The text of the Resolution passed in November 1914 is as follows :—

"That His Majesty having directed military forces charged upon revenues of India to be despatched out of India for service in the War in which this country is engaged, this House consents that the ordinary pay and other ordinary charges of any troops, so despatched, or that may be so despatched during the continuance of the War, as well as ordinary charges of any vessels belonging to the Government of India that may be employed in these expeditions, which would have been charged upon the resources of India if such troops or vessels had remained in that country or seas adjacent, shall continue to be so chargeable, provided that, if it shall be necessary to replace the troops or vessels so withdrawn by other vessels or forces, then the expense of raising and maintaining and providing such vessels and forces shall be repaid out of any monies which may be provided by Parliament for the purposes of the said expedition."

millions.* The arrangement was that all the monies raised in India and forwarded to Britain within this figure, and any special issues which the British Government required the Indian Government to make elsewhere, could be deducted from the promised 100 millions; and the balance should be made good by India taking over a portion of the British Debt. The British Government gratefully accepted the offer, though some members of Parliament grumbled because Cotton duties were imposed, so that India might be able to bear these burdens! The supplementary offer of another £45 million was not by way of an Executive decision of the Government of India, but by way of a formal resolution moved in the Viceroy's Legislative Council of those days.† The purely formal nature of this arrangement would be evident to any one who recollects **that the Viceroy's Legislative Council of those days had no power to vote the Budget or any part of it.** Hence, this gift, formally made by way of a resolution of the Council, is really a donation of the Executive Government of India only. Even so, however, the Legislative Council, merely because it got the opportunity of expressing its opinion on this matter, introduced two conditions by which the proposed grant would be reduced in case certain eventualities happened which threw unexpected additional burdens upon the Indian resources. These eventualities were: any large scale operations on India's own frontiers, or secondly, internal famine in the country placing serious strain upon the resources

*It is interesting to note the relevant sections of the Government of India Act of 1915 in connection with the use of Indian revenues. Section 20, sub-clause 1, lays it down:—

"The revenues of India shall be received for, and in the name of His Majesty, and shall, subject to the provisions of this Act, *be applied for the purposes of the Government of India* alone." (*Italics mine*)

Section 22 says:—

"Except for preventing or repelling actual invasion of His Majesty's Indian possessions, or under other sudden and urgent necessity, the revenues of India shall not, without consent of both Houses of Parliament, be applicable to defraying the expenses of any military operations carried on beyond the external frontiers of those possessions by His Majesty's forces, charged upon these revenues."

This makes it quite clear that **the Executive Government of India had no authority under the law to make an offer of the kind they made in 1917.** Nor had the British Parliament, it is submitted, the right, merely by resolution, to accept such a contribution. So long as these sections of the Act remained in operation, **there seems to be no way for lawfully making a grant out of Indian revenues for expenses in connection with military operations outside the frontiers of India.** The formality of a vote of the Legislative Council of those days, which itself had no right whatever to vote any part of the Budget, and much less to vote any such extra-ordinary grants, does not in any way affect the provisions of the Act! In fact it is entirely open to question if the Resolution of September 10, 1918, is not an utterly illegal procedure, or at least against the Government of India Act, then in force, in the spirit as well as the letter of that enactment. **Those contributions, therefore, seem to have been made without adequate legal authority for the purpose, and it is an open question whether grants or donations, made without proper legal powers for the same, could be binding on the people affected.**

† "That this Council recognises that the prolongation of the War justifies India's taking a larger share than she does at present in respect of the cost of the military forces raised, or to be raised in this country, and recommends that such large share be to the extent and under the conditions and safeguards indicated in the speech of the Hon'ble the Finance Member in moving this Resolution."

(9-10 September, 1918), passed by a majority of 18 : 5—all non-officials.

The Finance Member had declared at the outset that they would leave it to non-official members, though the Resolution was moved by the Finance Member himself. The limiting conditions were also introduced by the Finance Member himself, *i.e.* frontier troubles, famine, and Exchange. Those all happened. The additional contribution was a *varying* figure, calculated to reach in 3 years 45 millions, reduced later. It might have been much more if the War had lasted longer, the Council had no power to pass it; and Government were prepared to go to Parliament for the amendment of the India Act. But if the non-official members were so obliging, why need they cast a doubt on their own authority to vote the original contribution?

of the country, or troubles caused by Exchange variations. All these eventualities occurred. There was a war on our frontier, the Third Afghan War of 1919, which is estimated to have cost about 13 million sterling! There was also a severe famine in 1918-19, coupled with the influenza epidemic; and there was the Exchange debacle of 1920. These, between them, reduced this contribution to 26 million sterling.

115. *Summary.*—Altogether then the sum total of India's contribution in this war may be reckoned up somewhat as follows:—

		Crores. Rs.
1.	Increased military and political charges on account of and in connection with the War, borne by India as ordinary Budget, counting only the excess over normal	150*
2.	Special War contribution, taking the pound sterling at the then current rate of exchange of 1*s*. 4*d*. to the rupee	189
3.	Increase in Civil Expenditure due to the War	25
	Total ...	364†

116. *Balancing the Account.*—Before concluding this part of our Enquiry, it is necessary to add two very pertinent considerations, which must materially influence the judgment of the final negotiator on this subject. In the first place, India's contribution, as compared to that of the other Dominions of Britain, and her advantage in the results of the War, show a very disproportionate balance telling against India. While on the outbreak of the War, the other Dominions only offered to protect their own frontiers, or protect the Overseas Commerce within their regions, India alone, in addition to protecting her own territory, made such lavish contributions to the Empire's fighting forces in the European War. The defence of the local frontier meant a considerable obligation in the case of South Africa alone, where there were German interests which might conceivably involve that territory in danger. But the contribution of Australia in Gallipoli and in policing the seas does not at all compare favourably with that of India. On the other hand, after the War, Australia as well as Africa received substantial additions to their territories, as they have been placed in charge of German possessions under the cloak of Mandatories of the League of Nations. India, however, received no such advantage. The Dominions have been made to share, along with Great Britain, in the Reparations, such as they are, that have been received from Germany so far; but even this share, comparatively speaking, does not advantage India at all proportionately. And, of course, India has very little say in the mutations of these

*I reckon only 115 in place of the 215 computed in paragraph 113 above, for the sake of erring on the side of excessive moderation.

† If we leave out the third item, the claim on account of the European War alone, which India is entitled to make, comes to 340 on the most modest and conservative computation. The item, however, which ought to be added is the amount of War Stores of all kinds, which had been bought lavishly during the period of the War, and for the prosecution of the War, but which, after the end of the War, had to be realised at very heavy losses. According to the Inchcape Committee's Report, the value of the Stores held on 31st March 1922, or the nearest date, was given, in the Army alone, Rs. 20·15 crores. To this, if we add the value of Stores on account of the Military Works Branch, Marine, and Telegraphs, the aggregate amounts to about Rs. 25 crores, out of an aggregate of 59 crores of Stores in all Departments of Government. Apart from the losses of interest on such vast sums locked up in material which was rapidly depreciating, the actual realisation of surplus stores in all Departments, bought so lavishly at high prices during the War, brought in very heavy losses to the Indian Exchequer, which may modestly be computed at not less than 15 crores.

Reparations payments! The second consideration, still more material, is as regards the actual incidence of War burden upon this country. It is seldom remembered that the amount of the debt occasioned by the War carries a stipulated interest, the real value of which, in terms of commodities, is much greater than appears on the face of it, if we consider only the figure of percentage allowed by way of interest. The six per cent of war time charge, when the price index was 250, had a commodity value, which is to-day perhaps doubled. And this is quite apart from the artificial variation in the rates of exchange brought about by the Indian Government's finances. The amount, therefore, that the Indian taxpayer has to pay to make good the interest and sinking fund charges of these Loans, though fixed in percentage, is, in terms of the commodities that the Indian producer has to give in exchange for the money, very much more increased. While the creditors receive, let us say, only £6, the Indian taxpayer has to give out of his produce double or treble the quantity that he used to give in 1919 for the same £6 on every hundred pounds of debt. The unrelieved burdensomeness of the War Debt has been objected to in every debtor country; and many have adopted heroic measures to get over this burden. **Britain herself has asked for, and obtained, substantial relief in her War Debt** burden from her principal creditor; and she has accorded very liberal treatment to her own debtors. **India alone is the unrelieved unfortunate, from whom Britain still exacts the Shylockian pound of flesh.** Her claim, therefore, for this 340 crores worth of the Great War contribution and service rendered by her in Britain's hour of need must be considered sympathetically; and relief must be given to her, whether on the ground that others have got or taken such relief, or in grateful memory of the timely service rendered. That alone would prevent the basic legality of the whole transaction being questioned.

IV.—Debt due to Financial Mismanagement & Budget Deficit.

117. *Debt caused by Budget Deficits.*—Attention should next be drawn to the debt occasioned by deficits in the ordinary budget since the year 1858. These deficits were almost invariably caused, either by war or by warlike preparations, by Exchange mischances, by the cost of famine relief, or by sheer financial incompetence. Of these, we have already dealt with the influence of war and warlike preparations, and so need not repeat our arguments on that head, beyond observing that the deficit in the ordinary Budget, which we are here concerned with, represents only that portion of the war cost or legacy, which was not met out of borrowed monies in the actual year of the wars. The years following the Great War were years of heavy and rising deficit, as shown in the margin. If we take in review the entire period since the transfer of the Government of India to the Crown, *i. e.* from 1858-59 to 1929-30, we find that the first 40 years of the period show a net deficit of about £3½ millions; which may be represented as Rs. 5 crores. In the next fifteen years, there was a net surplus of about 54 crores. The four war years show a nominal surplus of 18 crores; the 5 post-war years a net deficit of 108½ crores; the next five years an artificial surplus (due to enhanced exchange value of the rupee) of about 16 crores; and the last two or three years a recurring and rapidly increasing deficit, the last year (1929-30) alone showing an aggregate deficit of 18 crores. On the whole, the Budget deficits aggregate 130 crores, without counting the Provincial deficits ever since the provincial finances were separated in 1920; the aggregate surplus is 88 crores; the balance of net deficit, leading eventually to so much fresh indebtedness, is thus *Rs. 42*

Deficit in the Central Indian Budget.

	Rs.
1918-19 ...	5,73,06,136
1919-20 ...	23,65,28,825
1920-21 ...	26,00,85,276
1921-22 ...	36,38,23,520
1922-23 ...	16,51,29,676
Total Rs.	108,28,73,433

crores. As we account separately for the losses and debt directly due to Wars, famines, or Exchange complications, we must hold this amount as the price India has had to pay for the general financial incompetence or mismanagement.

118. *Civil and Miscellaneous Expenditure, not chargeable to India, causing Debt.*—Amongst the items of Debt not backed by any assets may be noticed expenses incurred outside India under the heads of Civil and Miscellaneous charges. The expenditure incurred under these heads upto 1896 has already been shown in a Table to a previous paragraph as compiled from the Welby Report. If we apply the *rationale* of the minority of the Welby Commission, and disallow charges thrown on India in regard to the maintenance of the British Consular and diplomatic representatives in countries like China or Persia; if we question the legitimacy of charging Indian revenues with the whole cost of the India Office, and disallow from the Indian Budget at the rate only £150,000 per annum, on the analogy of the charges for the Colonial and Dominion office, which are borne entirely on the British Exchequer ; if we object to the payment of Ecclesiastical charges from the Indian Revenues to the Christian Church dignitaries, as being an unfair charge upon India ; and if we decline to admit the subsidies paid to rulers of neighbouring states as being not at all chargeable to India, the aggregate charges so disallowed amount, even since the Welby Commission reported—or the counterclaim on these various counts would amount to:—

	£ 3,750,000	on account of the disallowed cost of the India Office for 25 years upto 1920.
	,, 7,000,000	Ecclesiastical charges for 35 years at £200,000 per annum.
	,, 9,250,000	Miscellaneous Civil Charges, and Political subsidies to neighbouring powers, since the time of the Welby Report.
Total	£20,000,000	or Rs. 30 crores.

It is immaterial whether this is claimed by way of a counterclaim from England, or refund of charges never due to be paid out of Indian revenues. The fact most important to note here is that these amounts, having unjustly and improperly been paid out of Indian revenues, the latter proved so much more unequal to the other strains imposed upon them; and so have resulted in additions to the burdens of debt, which we are investigating here. All these charges have served Britain's purpose; and the burden of them should, therefore, fall, in justice and propriety, on that country.

V.—Famine Debt.

119. *Debts incurred on account of Famine.*—The periodical shortage, or uneven distribution, of rains in India leads to a substantial reduction in the people's productive capacity, which occasions a serious distress to them. The relief of this distress, when it takes the shape of saving millions of souls from sheer starvation, imposes a heavy strain on the finances of the country. In the past, before a proper systematic financial provision for relief of famine had been evolved, the Government of India used to incur heavy debt for the purpose, since their ordinary revenues naturally could not be equal to such a strain. Tne famines of the decade 1870-80 are estimated to have cost £14,607,000; while the single one of 1896-97 cost Rs. 10½ crores, and that of 1899-1900 cost, in direct burden to Government alone, Rs. 17'08 crores. This debt, however, may well be borne by the revenue of India, since it was incurred for the relief of the distressed Indians.

120. *Inroads on the Famine Insurance Fund.*—While on this subject, we may point out that since 1879, wiser by the experience of the heavy cost of famine relief in 1878, additional specific taxation was imposed, which was estimated to yield over a million pounds a year. This was intended to create a special insurance fund against famine. This fund was to be applied to: (i) the relief of the famine stricken people in the years when there was an actual famine; (ii) to the construction of protective irrigation works or Railway; and (iii) to the reduction or avoidance of debt in non-famine years, so that in the year when there was an actual famine to fight, the Government's credit may be strong enough not to involve a disproportionately higher cost for the borrowing necessitated by the famine. In course of time, however, Government, thanks to their other financial embarrassments, frequently used the proceeds of this taxation in non-famine years for purposes other than those mentioned above. The result was that when a considerable famine occurred, as in 1896-97, or 1899-1900, there was no adequate reserve at the disposal of Government; and so they had to incur fresh debts for the relief of famine. Had the fund been properly managed, such a contingency could have been easily avoided. Whatever, however, may be the immediate reason for this debt, and whatever its amount and burden, India cannot object to accept liability for such debts. The aggregate on this account cannot, however, exceed Rs. 40 crores!

VI.—Debt Due to Exchange.

121. *Debt Due to Exchange.*—Ths most considerable and complicated item of the so-called Public Debt of India,—in the unproductive section,—is that due to the variation in the Rupee-Sterling Exchange ratio. At first sight, if we look merely at the figures, the volume of unproductive debt, unsupported by any assets, occasioned by the wars, seems the greatest single item of that Debt. Hence, to call the Debt due to Exchange policy or measures as the most considerable item in our "Public Debt" is an evident contradiction. But when we bear in mind the actual harm done by the Exchange policy of the Indian Government, not only in the shape of the actual monetary drain caused or burden imposed, but also in the shape of the damage done to our productive capacity and foreign trade, there can be no question about this being the largest single item in the Indian Government's indebtedness. As for the complicated nature of this item, the intricacies and involvements of the several sub-heads or arguments, on which India's claim on this account is to be submitted, we all but despair of making out a case intelligible enough to the average publicist.

122. *Debt considered only as from actual Loss.*—The case we propose to submit hereafter would, of course, be with reference to the actual, or traceable, loss or damage or burden imposed on India through this perennial channel of Exchange difficulties. This can and will be stated in pecuniary terms. The arguments, however, which turn on intangible considerations, or those incapable of exact monetary statement, and bearing directly on this part of the case, will be stated merely to show the real, though immeasurable, damage done to this country through this means, and consequently the absolute, utter, reasonableness of our demands in that regard.

123 *Origin of Exchange Embarrassment.*—The necessity to manage the Rupee-Sterling Exchange was forced upon the Government of India because of there being two different standards of money in India and in England; and because of their having to make every year a considerable payment in sterling in respect of the guaranteed Interest on Railway Capital, the British War Office Charges on account of Capitation Rates, etc. for British troops serving in India, pensions and allowance to their public servants of non-Indian domicile payable in sterling,

other Interest, and stores bought from England. The Revenues of India, out of which all these charges were to be defrayed, were all collected in rupees; while these payments were fixed in sterling, and had to be made by converting the Rupees into sterling. So long as the Rupee-Sterling Exchange remained fairly stable, the conversion operation did not present any difficulty, nor occasioned a serious loss, though even in those years, there had been some loss to the Indian Government, as will be shown below. From and after the year 1873, however, the Rupee began to decline steadily in relation to gold. The Government of India were, therefore, obliged every year, simply because of the decline in the exchange value of the Rupee, to raise more and more revenue to meet their foreign sterling obligations. A wiser course would have been, as the Welby Commission pointed out, to curtail, and ultimately to extinguish, these obligations in a different currency. The Government of India adopted the alternative of a suggestion to fix the value of the Rupee in relation to the pound sterling. They tried at first to bring about a fixed Sterling-Rupee Exchange Ratio by international negotiations for by-metalism. Despite, however, the willingness to co-operate from the United States,—the principal silver producing country in the world; and despite the desire of the Latin Monetary Union,—the largest European block of silver consumers, to join in the arrangement,—**the British Government opposed any scheme of international bimetalism, which was the only way to buttress the value of the Rupee.** In those days English economists and financiers seem to be convinced that London's being the central money market of the world,—and, in general, Britain's financial supremacy–depended on the unalloyed maintenance of the Gold Standard. This was an excellent, though imperceptible, method for Britain to levy a concealed tribute from the world at large; and so, quite naturally, in her own immediate interest, Great Britain strenuously opposed, and finally defeated, the idea of an internationally regulated Bimetalism. The result to India was the intensification and acceleration of the disasters which had already commenced. The Government of India were, therefore, compelled tor esort to an artificial fixation of the ratio of the Rupee in exchange to the pound sterling. They adopted the policy of bringing about an artificial scarcity of the Rupee by closing the Indian Mints to the free coinage of silver (1893). Once the Mints were closed, and Rupee stocks began to deplete for want of any replacement of the worn out coins, the value of the Rupee as a coin rose, even though the value of the rupee as a piece of silver was steadily declining all through this period. When, by these means, Government had brought about the value of the Rupee coin to 16*d.*, they decided to fix it at that level, as a preliminary to introducing an honest gold standard in India. Certain executive as well as legislative measures were adopted for this purpose in 1899; and for 16 or 17 years thereafter, the exchange value of the Rupee, thus fixed, was maintained. The intention to introduce an honest automatic Gold Standard in India was abandoned in the meanwhile; and the profits arising out of the coinage of silver, owing to this enhanced artificial value of the Rupee, were carried into a Gold Reserve Fund, now known as the Gold Standard Reserve, and kept in London, invested in Sterling securities amounting to £40 million in round terms.

124. *Variety and complexity of Loss through High Exchange.*—Let us pause here and take note of the loss borne by India, while the exchange value of the Rupee was steadily declining. The Statistical Abstracts for 1883–84 to 1894–95, gives the total charge in Rupees,—or additional cost,—for 25 years of sterling remittance of the Government of India at Rs. 82,79,33,300.* That is to say, from 1867–68 to 1892–93, when the Mints were closed to the free coinage of silver, the aggregate remittances of Government of India were £328,197,688. At the exchange rate current in 1866, the amount in Rupees

required would have been Rs. 328,19,76,818. Instead, however, because of the steadily declining value of the Rupee, the total number of Rupees required were Rs. 410,98,20,195, or an aggregate additional charge for 25 years of Rs. 82,79,33,300. In the next five years, the loss began steadily to decline. But even so, the figure does not disappear altogether from the Accounts of the Government of India, and in the Statistical Abstract for the next ten years, that loss is shown at Rs. 4,89,15,668.

125. *The Loss on Reverse Councils 1920.*—But these losses were nothing, however, in strikingness and magnitude, to the loss in the single year of 1920-21. As already remarked, war conditions had compelled Government to go back from their bargain of 1898, which had pledged them to maintain the exchange value of the Rupee at 1*s.* 4*d.* gold. As the price of silver improved on account of the great scarcity of silver production, coupled with enormous increase in demand under war conditions, Government, from 1916 December, increased the rate of the rupee-sterling exchange, at first by small fractions, but very sharply at the close of the war. With the retirement of the United States from Silver control in the summer of 1919, the situation became very much more intensified, and the rupee-sterling exchange soared to proportions that had not been heard of for 50 years before. The Government appointed a committee to investigate into the matter and advise them on the cure of this perennial problem. The Government as well as the Committee seemed to have been under the impression that the abnormal conditions created by the post-war boom in silver would last for a long time. Hence the Committee recommended, and Government decided, to link the Rupee to 2*s.* in gold value, with one dissent. As any appreciation in exchange makes a saving for Government in point of rupees on account of their Home Charges, any such recommendation is bound to find favour with Government. As in those years, the Government of India's finances were very severely strained, they seized avidly upon this recommendation, and announced to the world that they would maintain the new exchange value of the rupee at 2*s.* gold, which meant in those days something like 2*s.* 11*d.* sterling, thanks to the weakening of the sterling exchange. One indispensable requirement of this rate to be maintained was that the Government should be prepared to supply, at this rate, unlimited funds for whosoever wanted to make remittances to England from India. Within a few weeks, however, of the announcement of the policy, they discovered that it was impossible to make such an unlimited offer for remittance. They nevertheless persisted, with a limited offer of a million sterling per week, which was enormously exceeded by the demand for remittance. The result was that within four months,—by the end of June 1920,—they were obliged to drop the policy, and by the end of September of the same year to withdraw altogether from any attempt at regulating the exchange. Exchange, thus left to ordinary market fluctuations, soon reached its normal level, at the commencement of the next financial year. In the meanwhile, the Secretary of State had been obliged to sell some 51 million worth of Government of India Securities to provide the funds for the Reverse Council Bills sold upon him by the Government of India. These securities had been bought from Indian funds at a time when 16*d.* brought a rupee ; they were sold at a time when 35*d.* had to be paid to buy one Rupee. This loss alone is shown in the budget for 1920-21 to amount to 23½ crores, over and above loss involved in the ordinary Government remittances of that year. The loss resulting from the re-valuation of the Securities in the Paper Currency Reserves, consequent on the new ratio, and subsequent loss on all cognate account are all but impossible to state in exact terms. Taking only the figures brought to book in and from 1920-21, **the total loss may be put down at 35 crores of Rupees in round figures.** Thereafter there have been two or three years, during which the exchange has occasioned serious loss to Government of about 8 crores;

while the gains on this head shown in the account are often fictitious, because of mere change in the book values of the existing Securities.

126. *Loss to Trade and Industry from High Exchange.*—All this loss does not take into account the loss inflicted by this policy upon the Indian foreign trade in this period. It is a truism of the economic science that a falling exchange benefits, and a rising exchange hurts, exports. By the artificial enhancement of the exchange rate, however, the Government of India depressed the values received by the Indian exporter. If we take the average balance of net exports from India to be worth only 40 million sterling from 1893 to 1930, a period of 37 years would give the total export surplus from India to about 1500 million pounds in round terms. For this amount,—

at 12*d*.	per rupee,	the Indian producer receives	Rs. 3000 crores
„ 15*d*.	„	„	„ 2400 „
„ 16*d*.	„	„	„ 2250 „
„ 18*d*.	„	„	„ 2000 „
„ 24*d*.	„	„	„ 1500 „

Let us take the difference as between 16*d*. and 18*d*. only. The loss suffered by the Indian foreign trade, counting only the surplus and not more, in 37 years would be about 250 crores.* We must, however, count in this not merely the surplus of exports but the whole volume of exports; for the counterweight of imports being benefited, thanks to this exchange enhancement, really means no corresponding benefit to India. For these imports are really imports, in the main, of British and foreign manufactured goods, which India could well manufacture within her frontiers, given a suitable policy of encouragement and protection to native industry and enterprise; but which, in the absence of such an encouragement, and thanks to the depressing influence of foreign competition advantaged by means of such an artificially raised exchange, cannot make head against their foreign competitors. Paradoxical, as it may seem, therefore, to state it, the Exchange policy of the Indian Government has really hit India both ways. Its only advantage, if it can be called such, is to the Government finances, in so far as the facility of their sterling remittances were concerned. But that advantage is bought at this tremendous cost to the Indian people. The other party advantaged by this policy is the foreign manufacturer sending his wares to India. If the whole of the total export trade of India is taken into account, on which India may be said to have lost substantially because of this exchange policy, the damage thus suffered would amount to colossal figures! It would only serve to evidence one of the concrete benefits of British rule to India.

127. *Exchange Compensation Allowance.*—As stated above, we take this concurrent argument, incapable of precise monetary statement, only as aid to the main reasoning. That reasoning is intended to show: (i) that the actually admitted pecuniary loss to India has been, thanks to the necessity of making sterling remittances, at a progressively increasing rate, on account of the Indian Government pursuing an obviously injurious policy; and (ii) that further, and still greater, but not precisely calculable, damage has been done to the Indian trade and industry. The former, however, is further increased, because of special benefit given to the public servants of the Indian Government, who could boast of a non-Indian domicile, on the score that the exchange value of the rupee in which their salaries were received

* In reality the loss would be much more, since in the earlier years, the intrinsic value of the silver rupee would have been little better than 10*d*. or 11*d*. In the last few years, that basis would give an intrinsic value of the rupee to be less than 6*d*., and so the loss still much greater.

had declined. When the Rupee-Sterling exchange was falling, the Government introduced a special **exchange compensation allowance** to their non-Indian public servants, whose salaries were fixed in rupees, in order to give them more or less the same sterling value. There was absolutely no justification for this Exchange Compensation Allowance, given equally to the old as well as the new public servants of the country. The Government were bound to pay their salaries only in rupees; and those who joined the service, knowing that the rupee was a falling quantity, must be assumed to have made allowance for the decline in their emoluments when they accepted the service. The grant was all the more reprehensible, because it was made to those public servants of the country who had a non-Indian domicile, and who had occasion to make remittances abroad. The Indian public servants of the same class did not get this benefit; and so a clear premium was placed on the non-Indian public servants of the country. Government themselves had never asked for any reduction in the pension charge payable in sterling, when the commodity value of the pound sterling was enhanced by world causes. The damage done by this source is impossible exactly to state in monetary terms. But the item even now continues, and several categories are even now in existence for leave and pension allowances to the Civil and Military servants of the Government of India domiciled abroad, in which special rates of exchange are allowed. Taking the average burden on this account at 15 lacs of rupees per annum, and without making any allowance for the increase in the non-Indian staff, their leave and pension allowances, a thirty-five years' charge on this count alone would aggregate over 5 crores of rupees.

128. *Depreciation of India's Silver stocks*:—The third considerable, but immeasurable damage resulting from this policy is that done to the silver wealth of this country. The bulk of India's hoarded wealth, such as it is, has been, from time immemorial, kept in the form of precious metals,—largely silver. This is a kind of automatic banking, an investment as well an insurance against a rainy day. When silver was the standard of currency,—when a tola of silver coined was practically equivalent to the tola of silver in ornament,—this stored up silver wealth in ornaments was not only easily realisable. It was realised, for all practical purposes, at par. Times of distress and of famine saw this easy conversion, in India of the pre-currency reform days, on a large scale. When, however, Government closed the Indian Mints to the free coinage of silver, there began a deep and rapidly increasing divergence between the bullion value of silver, and its value as currency. While the latter was propped up at an artificial level by a complicated series of measures, the former went downhill unchecked. Two evils resulted to the people of India directly from this policy: (A) In so far as the value of the coined Rupee in terms of commodities was thus artificially raised, and in so far as the payment of Government dues and taxes remained fixed in terms of coined rupees,—for long terms of years in land revenue agreements,—the people suffered doubly: (*i*) they received less number of Rupees for the same amount of their produce, or at least that the full benefit of the rise in world price level was truncated before the Indian producer could get its benefit, thanks to this policy. And (*ii*) the ryot or the producer had to pay his dues or taxes to Government in a fixed number of Rupees, which took more of his produce to make up. (B) Secondly, the value of his hoarded wealth in silver went on progressively declining in value, because the currency policy of the Government of India had brought about a reduction in the world demand for silver. Of late, this particular evil has been immensely intensified. Since the exchange value of the Rupee was raised in 1926, Government have had to go on constantly contracting their currency in circulation, so as to maintain this high exchange. At the same time, they have had to stop all purchase of silver for coinage, and become

themselves heavy sellers of silver in the world market.* The price of uncoined silver has thus fallen beyond all previous record. Despite the ostrich-like attempt to prop up that price by means of import duty on silver brought into India,—which could only end in discouraging such private demand as there still may be struggling for survival in this country,—that measure has only caused a further decline in the price! Hence as and when the Government of India go into the market to realise their accumulating stocks of rupees as silver bullion, they find the market brought down againt them by their ill-advised policy. The damage done in this way to the hoarded, uncoined silver wealth of the people of India becomes daily more and more intensified—clearly and entirely because of this suicidal policy of the Indian Government. It is impossible to measure exactly the precise amount of this damage. But if we assume only 1000 crores worth of silver wealth in the whole country,—a very modest estimate, being Rs. 30 per head of all liquid wealth; and if we take even the 1899 price of silver as a fair value for this wealth, the damage would amount to, under present prices, to over 500 crores! What an object lesson in the management of a Trust Estate!!!

129. *Countervailing Gains (?) to Government.*—And what have the Government of India secured in return for this heavy multifarious damage to the people of India? A small saving in rupees in their Home Charges payable in sterling, with a precarious, illusory equilibrium in their public finance! That the Government may save 5 crores per annum in their Home Charges—(Why should they keep up these Home Charges at all in the face of these circumstances?) the trade of the people of India must pay a toll of perhaps 50 crores per annum, and the industry of the country must suffer a handicap of from 12½% to 200%, while the hoarded capital wealth of the people in silver must depreciate by 500 crores! And this, quite apart from the loss already realised by Government by their recent, frequent, heavy sales of silver. If with all this sacrifice and suffering, we had been brought nearer to the final and lasting cure of our currency evil; if we were really placed on an honest gold standard, in which we might take the consolation that all this was a price paid for the necessary adjustment, we would bear the loss, and say no more. But while the present system of Government lasts, there can be no hope of such a lasting remedy being applied. It would close up too completely one of the most profitable, though the least perceptible, avenues of the exploitation of India for the benefit of British economic exigencies! This loss, damage or handicap might not find its way in the schedule of the so-called public debt of India, at least in an easily traceable form; but it affects the people in their capacity to bear the burden of the debt.

130. *Conclusion on Exchange.*—Altogether this chapter of blunders is not even now closed. The controversy still continues, and the policy in regard to this may be said still to be a negation of any fixity. Meanwhile, ths net burden caused in connection with the exchange may roughly be put down as follows:—

		Rs.	
Upto the end of 19th Century	...	87	crores in round terms.
Loss during the year 1920-21	...	35	" " "
Exchange compensation allowance	...	5	" " "
Loss in subsequent years from 1920 to date offset by such gain as is shown in the accounts ...	...	Nil	
		Rs. 127, or 125	crores in round terms.

* This happens because of vast accumulations of silver rupees in the currency reserve, which they must sell out if the fiction of the gold standard in India is to be maintained. In the last 5 years Government have sold large quantities of such silver; but the exact amount of the loss on these sales cannot be easily traced.

This does not include the immeasurable loss to the Trade and Industry of India caused by this factor, and running into several hundred—if not several thousand—crores; nor does it include the damage caused to the country's silver wealth, which I most conservatively estimate at Rs. 500 crores! This has, in one shape or another, fallen on the Indian revenues, and has strained them so far as eventually to lead to debt. As this is a debt created by the policy pursued in regard to the Rupee-Sterling exchange by the Government of India, in open and emphatic defiance of the Indian public opinion, as well as in obvious disregard of the economic interests of this country, the Indian people could scarcely be expected, in justice and equity, to undertake liability for this burden.

131. *General Conclusion.*—Of the so-called "Public Debt," therefore, the following items cannot, in justice, equity and good conscience, be reasonably charged upon India.

	(In crores of rupees)
All debt due to non-Indian wars	90
„ „ Extraordinary charges of the last European War	150
„ „ Special Contribution made in that War ...	189
„ „ Budget deficits caused by these wars ...	42
„ „ Measurable losses resulting from the Currency and Exchange policy	125
„ „ Miscellaneous Civil charges of the type mentioned above	30
	626 crores.

or Rs. 625 crores in round terms.

And all that it must be repeated without reckoning at all the untold harm done to India's trade, industry and small savings due to the Currency and Exchange Policy! without counting the invisible harm done by constant exploitation of the country and its resources, the intangible injury done to the morale of the people, who aggregate one-fifth of the whole human race!*

* This figure takes the War and Political Debt at about 90 crores less than it really should be computed at; it makes no allowance for trade losses, industrial injury, or depreciation in Silver wealth; nor takes full account of the debt caused in connection with Burma. The computation has, in fine, been extremely, excessively, conservative.

CHAPTER IV

Productive Debt, or Debt backed by Assets.

I.—Character of Productive Borrowing.

132. *Introductory.*—The Productive Debt, so-called, incurred by the present Government of India, is distinguished from the "Unproductive" debt in this: That whereas the former has been incurred for purposes, and proceeds employed in a manner, which have resulted in the creation of substantial material assets, which therefore are supposed to bear their own burden of Interest and Capital repayment, the latter produces no such asset, and so becomes a deadweight on the country's resources. This distinction obviously is concerned with the ability to bear the burden; and not so much to the liability for the burden at all, in the first place. So far as the latter consideration goes, the party incurring the obligation hitherto lacks the authority and consent of the Indian people in the same way as any other form of such obligation. The only mitigating, or differentiating, circumstance is: that whereas the Indian people receive, in return for so much unproductive burden, nothing but a legacy of cumulative wastage of their national resources; in exchange for the so-called productive burden they receive material assets which are or can be made to yield a self-sufficing return. In equity, then, to the extent that the new Dominion of India receives such assets, it must shoulder the financial liability for the same, apart from any special consideration of taint in the general series of such transactions. As India's case rests on the broad principles of international Equity, we may, at the very outset in this section of our Enquiry, accept, in principle, the liability for such debts for which there are adequate assets or property of the Indian State, without prejudice to such counterclaim, set off, or attenuating circumstances, as vitiate or reduce any part of this burden on account of the so-called Productive Debt of the Government of India.

133. *Classification of Productive Debt.*—The principal classes of these Productive Debts of the Indian Government may be described as follows:—

1. Debt or obligation of the State in respect of Railways constructed owned and worked by the State, or those purchased from the corporations which originally built these Railways. This amount is shown, at the end of 1930-31, to be Rs. 745'29 crores, in addition to Rs. 33'20 crores being capital supplied by the guaranteed companies to whom several of the lines had been re-leased for working after the acquisition of the enterprise by the State. The figure, however, includes the Government Debt in respect of the North Western Railway, which was originally constructed for purely strategic reasons, and of which a part is even now admitted to be—and classed as—strategic railway, accounting for Rs. 33'387 crores of such Debt.

2. Debt or obligation of the State in respect of Irrigation Works, both productive and protective, which is shown, at the end of 1928-29, to be Rs. 123'02 crores.

3. Debt in respect of other Commercial Departments of the State like the Post Office with all its incidental or connected services, representing, at the end of 1930-31, a total Capital charge of Rs. 23'41 crores.

4. Balance of provisional indebtedness, after deducting the amount chargeable to Irrigation Works in the provinces, and representing the so-called developmental borrowings which have been passed on to Municipalities, Port Trust, etc. or utilised in such ventures as Bombay Development, amounting in the aggregate to 19'00 crores of Rupees, in round terms.

5. Loans to Indian States etc. aggregating Rs. 19'60 crores.

134 *Creation of Assets.*—Taking these several classes of the so-called "Productive Debt" in the order named, let us next consider the nature of the debt on account of the Railways. These are aids or facilities in the general economic organisation of the country, which can be said to be productive only in the sense that they add place-value to the material transported from its original place of production to the market for its ultimate consumption. By widening the scope of the market, these may add to the demand, and so lend an indirect stimulus to the production of new wealth. They are, however, not primarily productive of additional material wealth by themselves, as irrigation works may, in contrast, be said to be. From the narrower financial point of view, however, any assets of the Government of India, which can and have been made to yield a revenue sufficient to meet the burden of debt in connection with them,—even with an element of taxation embodied in the Railway rates and fares,—can be said to be productive. On that basis we may admit the Railway Debt to be of a productive character, or one which has earning assets to back it. Note well that this Railway Debt is only a conventional figure; for no part of the Debt is charged on any specific asset or enterprise.

But we must examine the origin and development of India's so-called Public Debt on this account, before accepting finally liability for the same, so as to see if any taint attaches to its creation or growth, which could render any part of it unbinding.

II.—Railways Debt.

135. *Genesis and Nature of Railway Debt.*—Perhaps the largest single item of the existing Public Debt is under the head of the railways. The total capital outlay on all Railways in India amounts to 856'73 crores at the end of 1929-30: Not all of this is debt incurred directly by Government on Railway account, as originally considerable proportion of it was in the form of capital of Railway Companies. That figure of Government debt on Railway account is given above in the table attached to para 92 pp. 56-57 at Rs. 745'29 crores, and is made up of the following items:—

(*a*) Money raised for Railways constructed directly by the State, of which the capital cost is difficult exactly to estimate. The Policy of constructing railways directly from funds raised by Government remained in effect only for about 10 or 12 years between 1869 to 1881. In this period the total outlay by the State on State-owned and State-built ventures was £26,689,000 according to Sir John Stratchey's *Finance and Public Works of India.* This does not, of course, include monies spent by Government on Railway construction and extension from current revenues, or from the Famine Insurance Fund, which amounted to Rs. 13 odd crores.*

* See table in foot-note under para 148 below (page 93).

(*b*) Railways purchased from the old or new Guaranteed or subsidised Companies, and now worked as State Railways. This is really the biggest block of existing obligations on this account, and needs to be carefully scrutinised in its origin and development.

(*c*) Railways constructed by the subsidised Company.

Whatever the real value of the asset in the first group, no question need be raised as to the equity of the obligation on this account. As regards the second it must be observed that the system of guaranteeing a minimum interest to companies for the purpose of constructing a railway was objectionable, and has been objected to, for a variety of reasons, almost from the very outset. These reasons may, for convenience' sake, be stated under the following main heads:—

(1) The original guarantee of a minimum yield from the guaranteed Railway system was excessive, as compared to the then prevailing market rates for such capital.

(2) The existence of the Guaranteed Interest took away all incentive for economy from the Companies responsible for the construction and working of the railway systems, with the unavoidable consequence of heavy inflation in the capital cost incurred, and tremendous wastage in working, making the burden of the guaranteed interest needlessly heavy.

(3) The grant of free land to these companies has involved an additional burden to the Indian Exchequer, and a very valuable benefit to the railway companies concerned, which is not the less heavy because it has not always been properly accounted.

(4) The acquisition of these assets, on the expiry of the original period of guarantee, or on the date when the first option to acquire became due, was made on terms which resulted in additional burdens upon the people of India, while the arrangements made for the subsequent working of the acquired enterprise were no less onerous.

(5) The terms on the revision of the original guarantee contracts, as also with the subsidised companies or branch line enterprise, were also calculated, in many cases, to add to these burdens.

(6) Specific provisions in the contract of guarantee,—like that in connection with the fixed rate of exchange (22*d.*=1 Rupee),—added materially and unfairly to these burdens.

136. *Costliness of Guarantee.*—Taking these reasons in the order given, the fact is evident from a study of the contemporary accounts, that while the Original Guaranteed Railway Companies were being given an assurance of a guaranteed minimum return of 5 per cent., to be made good from the general revenues of India in the event of the receipts of the Railways themselves proving insufficient for the purpose, the same central money market of India or Britain was lending monies to the same Government of India at 3½% or 4%.* Govern-

* In the triennial statement of account of the territorial revenues and disbursements, submitted to Parliament by the East India Company, for 1851-52 to 1853-54 (ordered to be printed by the House of Commons on 13th March, 1856) the following are the rates of Interest shown against the Registered Debt in India:—

Bengal Loans Rs.	36·07	lakhs at	6%
,,	124·48	,,	5%
,,	4148·38	,,	4%
,,	4·53	,,	3½%
Total.	4313·47	,,	

The other Presidencies had, comparatively, very little debt; so that, though the average rate of interest in their case works out a little higher, 5%, or 5½%, that does not affect the main points about Government credit.

ment were borrowing, it need hardly be added, for wasteful, unproductive purposes of war and civil administration deficits in the newly annexed provinces. They had no definite assets to inspire particular confidence in the lender; nor had the lender to the ordinary loans of Government any hope of participating, some day, in the surplus profits of an earning concern like a Railway. And yet, while Government could themselves borrow in India at 4%, they chose to offer as high a guarantee of minimum return as 5% in those years! And that despite the fact that the earliest adventurers in this field of railway enterprise, seeking a guarantee of return from the Government, had themselves asked for only 3%.*

137. *Opinions of Authorities on the Evils of the Guarantee system.*—The obvious evils of the original Guarantee System were not unknown to the authorities in India and Britain concerned in the matter. The resultant burden on the Indian revenues may not have been fully perceived, or appreciated properly, at the time, by all those in power in regard to Indian affairs. But the subjoined few extracts from the opinion of experienced officers, pronounced before responsible Committees of investigation, would serve to show how tainted at the very source was the very principle of the Guarantee System.†

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* *Cp. Railway Policy in India*, by H. Ball 1894, p. 2.

†The wastefulness of the Guarantee system was perceived almost as soon as the high officers of Government were freed from their political pre-occupations following upon the events of 1857-8. In a Despatch, dated 29th November 1861, (No. II) the Government of India wrote to their Home authorities advising restraint in the use of Capital so raised, as it was burdensome. Sir J. P. Grant, President of the Viceroy's Council, objected to the dual management of Railways resulting from the Guarantee system; and also to the financial basis. He considered that system implied the raising of money by a special Public Works loan, but under conditions most advantageous possible for the public, who must be taxed for the payment; that the money was not raised at the lowest market rate, and that instead of repayment being at the option of the borrower, (the Government) this could not be done, whatever the loss might be in keeping it, while the lender could at any time reclaim it, or an equivalent annuity, whatever the financial position of the Government might be at the time. The Finance Member of the Viceroy's Council, Mr. S. Laing, writing in April, 1861, also recorded his opinion against the system, on the grounds that the management was non-resident, that the data about the initial cost and probable traffic were so uncertain, and that therefore the Companies looked exclusively to the Guarantee for their dividends, (p. 65-66, summarised from "*Railway Policy in India*" by H. Ball).

Before the Select Committee of Parliament in 1884, witness after witness, of acknowledged experience in these matters, condemned the Guarantee system. Direct State enterprise having commenced in this field from 1869, it was possible to make comparisons in initial as well as operating costs, which could not by any means be regarded as invidious. Sir Jutland Danvers, for several years Government Director of Railways in India, did not quite share the view of the critics hostile to the Guarantee system; but even he had to admit that:—

> " The cost of lines now constructed (*i.e.*, under direct State enterprise)...........has been much less than the average cost of these railways which form the original main system. Instead of £18,000 and £20,000 per mile, we now see lines constructed on the 5 feet, 6 inches guage for £4,000, £5,000 and £9,000." (Note to the Annual Report on Railways in India, 1872-3). General Strachey, whose experience in Railway matters was not second to that of anyone in India, was as clear as he was emphatic in condemning the Guarantee System. " Not only has it been productive of waste of money, but it also has created a very valuable property at the expense of the tax-payers of India, which has passed into the hands of third parties without their having incurred, in any sort of way, any risk." (Answer to question 19, Select Committee of 1884)."

Mr. Westland, who afterwards became Finance Minister of India, and Sir R. (Gen.) Strachey, were clear about the Guaranteed rate of Interest having been disproportionately high. (See Answers to Questions 5297–5298). Strachey's reply to Question No. 309 leaves nothing to be desired by way of clearness:—

> Q. " But is it not the case that the Government of India of the day, when they sanctioned this guarantee to the East Indian and other Railways, could have practically borrowed the money themselves?"

138. *Terms of the Guarantee Contracts.*—For a proper appreciation of the arguments advanced in the following sections, it would perhaps be best if we set out the main features of this patent device for unceasing exploitation. The main terms of the original Guaranteed Railway Company Contracts may be summarised as follows:—

1. Government to provide all land required for Railway purposes free of charge for a term of 99 years.
2. Companies to raise the required Capital, and Government guaranteed interest on that capital at 5% (in some cases 4½% or 4¾%) per annum to be paid in London.
3. Company to pay capital in Government Treasury in London or India, and Government were to advance monies as required for construction in India or England, all sums of money being paid or drawn by the Companies in India being set off at 1*s*. 10*d*. for each rupee.
4. Affairs of Railway Companies to be under general supervision and control of the Government.
5. Profits of Railways, after deducting working expenses, were to be applied, in the first instance, towards the discharge of guaranteed interest paid by Government, the rupees being converted at the fixed exchange of 1*s*. 10*d*. Any surplus profits, after meeting the interest deficit, were originally for the shareholders exclusively; but later on arrangements were made by which profits, after deducting working expenses and allowing for the guarantee, were to be divided equally between the Government and the Companies.
6. Government Mails were to be carried free, and troops and stores at concession rates, or lowest rates chargeable for carriage of corresponding goods.
7. Companies must allow use of Railway to public on such terms, rates and fares, as were approved by Government.
8. On the expiry of the term of 99 years, the permanent way and immoveable fixtures became Government property, free of all debts and charges, save those sanctioned by Government: Companies to sell, and Government to buy all rolling stock, plant and machinery at a valuation made by referees.
9. After the first 25 years, or after 50 years, Government entitled to purchase Railway upon paying the value of all shares or Capital stock of the Company concerned, calculated according to the mean market value in London during the 3 years immediately preceding the date of purchase in London.
10. Companies also entitled, after a line had been in working order for 3 calendar months, to surrender and relinquish Railway to

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[*Continued from page 87.*

A. "I do not know whether they could or not. There is no evidence that they could not, at all events, they thought that it was better that they should not. My own impression is that that was a delusion; **the probability is, in fact it is almost a certainty, that they could have borrowed the money on better terms than the Company.**"

To this we might add the actual fact of Government having borrowed large sums in 1857-8 the cost of suppressing the rising of 1857. If they could borrow for unproductive objects like this, which left no assets, why could they not for clearly productive objects?

Government, who were in that case bound to pay to the Company concerned the capital expended on the Railway.

139. *Revision of the Original Contracts.*—These were the main features of the contracts with the original Guaranteed Companies, ten in all. The Contracts were revised, in 1866-67, when the main change made was to fix the exchange at *2s.* instead of *22d.* as was the case before. In 1870, the Secretary of State further revised the contract, over the head of the Government of India, by waiving the Government's claim to have the guaranteed interest arrears, which Government had paid from the public revenues. The division of profits was also altered, inasmuch as the surplus after paying the guaranteed interest was to be equally divided between the Company and the Government. The right of taking over after the first 25 years was also waived at the same time. These terms were modified, mainly in respect of the rate of the guaranteed interest, in regard to the later guaranteed Companies, which came into vogue after the eighties of the last century, the guarantee being lower in each case. The terms of the Branch Lines, or subsidised companies, were slightly different, the subsidy taking the form of a direct payment, and certain rebate being allowed on lines constructed as feeders to the main lines.

140. *Relative Costliness of Guaranteed Construction.*—The presence of such an assured and substantial guarantee of an unfailing minimum yield made the authorities of these guaranteed Railway Companies utterly indifferent to considerations of economy in construction or operation of their enterprise. The foot-note attached hereto shows clearly the most obvious tendency to wastefulness and extravagance in the Guaranteed Railways, as contrasted with the State-built Railways, at a time when both were being simultaneously constructed and worked. Since the guarantee was given on the capital invested, the return would increase in proportion as more capital was shown to be invested in the enterprise.*

* The costliness, relatively speaking, of the construction of Railways in India under the Guarantee System is borne out by the sub-joined figures, compiled from the Report of the Select Committee of 1884 (pp. 771-781).

I. *Old Guarantee System, as on December 31, 1880*—

Name of Railway System.	Miles Open	Guage	Capital Cost per mile upto 1880.
			Rs.
E. I. Railway	1504·25	5' 6"	2,19,643
G. I. P. Railway	1275·75	,,	1,95,945
C. & S. E. Railway	28·00	,,	2,37,137
Madras Railway	858·00	,,	1,29,572
B. B. & C. I. Railway	444·00	,,	1,86,582
S. P. & D. Railway	663·50	,,	1,66,470
Eastern Bengal Railway	158·00	,,	2,08,035
Oudh & Rohilkhand	546·75	,,	1,05,709
South Indian Railway	645·25	3' 3⅜"	64,584

II. *State Railways Constructed directly by the State since 1869*—

Name of Railway System.	Miles Open	Guage	Capital Cost per mile upto 1880.
			Rs.
Indus Valley Railway	653 00	5' 6"	1,06,099
Punjab Northern Railway	224·75	,,	1,78,138
Sindia Railway	56·50	,,	1,22,585
Nagpur Chhalisgar Railway	53·00	,,	57,315
Wardha Coal Railway	46·50	,,	1,11,156
Dhond Manmad Railway	145·75	,,	71,756
Patna Gaya Railway	57·00	,,	56,508
Dildar Nagar Ghazipur Ry.	12·00	,,	60,480
Northern Bengal Railway	243·50	3' 3⅜"	80,796
Tirhat	85·00	,,	62,821
Mattra-Hathras	29·00	,,	37,523
Cawnpur-Furrukhabad	86·50	,,	36,196
Rajputana	826·57	,,	62,989
Holkar-Sindhia Neemuch	189·22	,,	1,09,500
Rangoon & Irrawady Valley	161·00	,,	76,443
Western Rajputana	82·63	,,	76,452

141. *Waiver of Arrears of Guaranteed Interest paid out of Revenues.*— But the inequity in connection with the Railways in India, considering only their financing; does not stop there. Thanks to a clause in their contract of guarantee, Government were entitled to acquire these properties at the end of the first 25 years of the lease. This right was waived, in regard to the original Guaranteed Companies, by the Secretary of State, in virtue of the revised arrangements he made in 1870 referred to above. When, however, those original Guaranteed Companies' properties were actually acquired, **the acquisition was made under conditions that added needlessly to the burdens of the people on this account.** The Companies were entitled, under the terms of their contracts, to be paid the market value of their shares, or stock, at the date of the acquisition. As they had been in receipt of a heavy guaranteed interest, the market price of their stocks or shares went up enormously when it became known that the State would be acquiring the properties. The subjoined table would serve to give some idea of the excess payments made to those Companies for their capital Stock, when the properties were acquired by the State.* As the payment was made in the form of bonds of the

(Continued from page 89.)
For the same kind of Railway construction, *i.e.* for the same guage and the similar character of the country traversed, **the Guaranteed Railway Companies constructed their Railways at a rate twice as costly as that resulting from the direct State enterprise.** And this apart from the fact, that the Guaranteed Companies having entered the field earlier, had naturally taken up the more easy and more paying regions for their own enterprise, the State being thus left to attempt the less paying.

* *Purchase of Old Guaranteed Railways by Government.*

Name of Company	Length of line in miles	Date of Purchase	Capital subscribed by Company Share £	Debenture	Rate per cent on share capital	Total Price Discharged
East India Ry.	1504	31-12-1879	26,200,000	4,450,000	125	32,750,000 By India Stock £7,282,366; By annuity £25,467,634.
Eastern Bengal.	160	1-7-1884	2,255,480	1,024,658	150·383	3,391,917 India Stock £ 542 070; Annuity £ 2,849,847.
S. P. & D. Ry.	737	1-1-1886	11,075,320	...	126·49	14,009,124 India Stock £ 4,911,216; Annuity £ 9,097,908.
Oudh & Rohilkhand.	548	1-1-1889	4,000,000	5,300,000	125·9012	5,046,049 By 3% India Stock.
South India.	655	1-1-1891	3,208,280	1,495,000	131·0116	4,197,557 India Stock 3,197,557; Capital deposited £1,000,000.
G. I. P. Ry.	1288	1-7-1900	10,000,000	5,922,350	174·296	34,859,218 Annuity £ 33,109,218; New Co. Stock £ 1,750,000.
B. B. & C. I.	461	31-12-1905	8,745,056	2,391,300	133·625	11,685,581 India Stock £ 9,685,582; New Coy. Stock £ 2,000,000.
Madras	905	1-1-1908	10,257,630	2,146,600	124	12,819,558 Annuity £ 11,319,558; New Stock £ 1,500,000.

State for the amount agreed upon as the price of the stock, the burden on the people laid by that arrangement was needlessly heavy, and unjustifiable. The aggregate amount of that burden is £33 million, which may be taken in terms of Rupees at 50 crores in round terms.

142. *Terms of Re-lease for working also onerous.*—It may be mentioned here that even when these properties were acquired, the acquisition referred only to the payment of the proprietary capital. So far as the working and management of the Railways was concerned,—the occasion of the greatest wastage and extravagance,—that was left, under the new arrangements, once more to the Companies, for another period of lease. The terms of this Agency contract were, if anything, more onerous and wasteful, from the point of view of the Indian revenues and national economy, than before ; with the result that the asset which had been built up at such heavy sacrifices still failed, after fifty years, to bring any relief to the people of India, and instead served only to impose on them additional burdens.

143. *Later Guarantee Companies and Subsidised Railways.*—The vicious precedent created by the original guarantee system continued to levy its toll on the public resources of this country, under almost every subsequent revision of the original principle. After the short-lived experiment of direct construction, ownership and management by the State between 1869-81, the principle of Railway expansion through guaranteed or assisted or subsidised private enterprise was continued all through the period, until about five or six years ago. The reason was clear. These guaranteed or subsidised companies, with their boards of direction mostly in London, provided excellent opportunities for the retired high officials of the Government of India to obtain fat sinecures on those directorial boards of exploiting concerns. And so there was a tacit conspiracy to continue the system, notwithstanding periodical protests against the presence of high governmental officials on these boards. The Companies guaranteed after the eighties of the last century received a lower rate of guarantee ; and these incorporated on rebate terms, or other forms of aid and subsidy, received a descending order of loot from the public revenues. But the principle of constructing the entire transportation system of the country, by means of private enterprise, was unmodified and unexceptioned ; and the burden levied upon the people through that source was incalculable. All these concerns received land free of cost, as a rule ; and the value of the public land thus alienated for at least 25 years is difficult precisely to compute and express in terms of money.

144. *Burden of a fixed High Exchange.*—One incident, however, of the Railway contracts, and general Railway policy in India, which cannot be passed over in silence, is the clause in the original contracts with the first Guaranteed Companies, which offered them a fixed rate of exchange. The original contracts had fixed the conversion rate between the Rupee and the Pound Sterling at *22d.* per Rupee ; but the revised arrangement of 1870 fixed it at *24d.* According to the Appropriation Report on the Accounts of the Government of India, Para 103, of 1885-86, the Exchange rate so fixed worked in practice as follows :—

> The guaranteed and other Railway Companies first deposited their subscribed capital with the Secretary of State in England, of which they withdrew one part there, and the other part in India, for expenditure on the construction of their lines.
>
> The question of gain or loss did not arise in connection with the amounts deposited and withdrawn in England, but the balance was received in England at the average rate of Exchange of the Secretary of State's Bills, and repaid in India at the rates fixed in the contracts with the Companies. When

the Contract rates were higher than the rates obtained for the Council Bills, there was gain to Government on these transactions ; but when the Contract rate was lower there was loss to Government. The gain or loss, when the money was brought out from England for the construction of the railways, increased with the amount of the withdrawals by the Companies in India, and with every fall or rise in the Council Bill rate of exchange.

Next there were capital receipts in India on account of these Companies against corresponding payments in England ; and in this case the position was reversed, there being loss to Government when the contract rate of exchange was higher, and gain to Government when the contract rate of exchange was lower than the market rate. One of these receipts consisted of transfers to revenue account of stores purchased in England on Capital account ; but these transfers were computed at the average rate of Council Bills drawn during the previous half-year ; and they involved, therefore, only so much gain or loss as arose from the average rate of exchange of the year differing from that of the previous half-year.

145. *Growing Loss on account of Fixed Exchange.*—For the first twenty years after the commencement of the Railway enterprise in India, this problem was not very severe. Capital had in those days to be remitted from England, where every pound received from the Companies brought them Rupees at *22d.* But the amount at charge remained throughout in sterling. When remittance began to be made from India, on Guaranteed Interrst and Surplus Profits accounts, the Exchange had gone against India. Every rupee brought only 15 or less pennies. Hence, on an aggregate payment to Railways on their Interest and Profit account, of £1 million, India would have to supply Rs. 1½ crores, as against the previous supply of Rs. 110 lakhs for the same amount. How much India had to pay extra on this account is all but impossible to state in exact monetary form. But that this amount must be very considerable, and that it has nevertheless escaped being properly taken into account, may safely be assumed to be true. The Railway properties valuation must, accordingly, submit a deduction on this account, before it can be taken over as an asset against the debt said to be incurred on Railways account.

146. *Calculation of Surplus Profits.*—Mention must also be made, in this connection, of that term in the revised contracts of the Original Guaranteed Companies, that allowed the latter an equal share in the surplus profits, after the guaranteed minimum of Interest had been paid out of the Railway receipts. The computation of this Surplus Profit is open to the gravest objection on the mere score of accounting. Without making any allowance for the outstanding arrears of the guaranteed interest paid to them out of public revenues in the past ; without making any deduction by way of Interest on such outstandings ; without providing in the least for the value of the land etc. given to them free of cost ; without making any arrangement for depreciation and repairs ; without including any charge in respect of the cost to Government of the supervision of their enterprise, —these Companies were allowed to declare surplus profits, which then quite nicely helped to raise the market value of their stocks or shares, that was eventually to fall on the Indian tax-payer's shoulders in the shape of the premium payable to the stock-holders when the State ultimately acquired the property. There were several secret forms of concealed and additional subsidy given to these Railway Companies at the expense of the Indian tax-payer, of which no proper mention is made in the accounts. Even though it may be too late, at this time of the day, to raise such questions at a moment of general stock-taking, that is no reason

why such consideration should not be borne in mind at the time of the valuation of these assets.*

147. *Burden of Strategic Railways.*—Before closing this Section of Railway burden finally, mention may be made of the admittedly strategic Railways on the frontiers of the country, on which the Government of India have not even now been making any profit. The classification, which considers only certain railways as strategic, is open to question; but, without pressing that point at all, and taking only the accepted classification of the Government, the Capital at charge on the admittedly Strategic Lines, on the North-West Frontier and Aden, is given in the latest Railway Administration Report at Rs. 33,38,72,000. These Railways are admittedly a losing concern, and have been so ever since their start. A portion of the North-Western Railway has been, of late, converted into profit-making concern, thanks to the canalisation of the rivers in those regions, and the opening up of these otherwise barren lands. But even so, the net loss, shown to be such in the Railway Accounts, is given in the year 1929-30 at Rs. 1,90,10,000. This is purely a military concern; and before, therefore, the country can be asked to take over the Railways as a valuable asset, valued simply at the figure of the Capital at charge on account of all the Railways, allowance must be made for such contra items.

148. *Presence of Political Motives in Indian Railway Construction.*—We may point out, in this connection, that scarcely a single line of Railways can be said to have been constructed on exclusively commercial considerations. Lord Dalhousie, the last Governor-General of the Company, and father of the Railway enterprise in India, placed the political and military considerations in the forefront of his plea for the assistance of Government in the construction of Railways.† His Lordship had no illusion on the subject, and advised quite clearly that even if the Railways he had sketched did not prove remunerative, the Company's Government should nevertheless afford the projected Companies for Railway construction some aid.‡ And ever since, this double ideal has been kept steadily in view by the authorities of the Government of India; so that the Railways can hardly be called a productive asset, without any qualification. Their aid, moreover, in the economic development of this country, is also question-

*As mentioned in the text, it is all but impossible to give an exact monetary valuation of some of the considerations urged above. Nevertheless, the subjoined statement from Rai-Saheb Chandrikaprasad's work, as to the real value of the Railways Asset, would be interesting :—

		(*In Thousands of Rupees*)
1.	Net loss on account of the Guaranteed Railways (Payment of deficit in Guaranteed Interest). ...	58,07,24
2.	Advances to subsidised Companies	42,64
3.	Outlay on Surveys etc. (Made from public Revenue) ...	2,56,09
4.	Outlay on Railways from Famine Insurance Fund ...	7,15,38
5.	,, ,, constructed from Revenues ...	6,76,91
6.	Loss by Exchange upto 1882-83	1,00,30
7.	Interest on outstanding balance (from 1848-9 to 1917-18)	297,69,17
	Deduct net profits from Railways (upto 1917-18) ...	72,08,40
	Net Balance outstanding	301,59,21

This takes into account loss by Exchange upto 1882-3 only. The aggregate loss on that head alone, upto 1913-14, given by the same writer, in Appendix II and III, is Rs. 6'04 crores. The cost value of the free land given to the Companies is also not included in the above balance. Likewise the amount paid by way of Bonus on Capital to these Guaranteed railways on their acquisition, is also not included. We must deduct all these items from the obligation in respect of the Railways, calculated on the basis of the Capital at charge; if we count only simple interest at 4% on the arrears, it would amount to over 70 crores.

†See para 5 of the Minute, of 20th April 1853.

‡*Cp.* para 11. *Ibid.*

able; since the rates policy has resulted in substantial, though veiled, subsidy to the foreign competitor of the domestic manufacturer, which adds one more handicap to the already sorely taxed Indian productive organisation. And their effect in conserving the resources of the country, especially against such contingencies of our economic life as famine, is quite negative. Thanks to the Railways, the country has learnt not to keep any reserves of food-supply within the country; so that when a famine does occur, people have no margin of their own supply left to fall back upon. And as for buying the foreign produce brought by the Railways, famine is not a season when the purchasing power of the Indian peasantry is at its best. The net effect of the Railway is, thus, in sharp contrast with that of the Irrigation Works, considered from the standpoint of developing or conserving India's natural resources.

149. *Summary of the Evils of Guarantee.*—The real inequity of the financial burden resulting upon the people of India has yet to be exhibited in full. (1) In the first place, the payment of all the deficits in the Guaranteed Interest, out of the Revenues of the country, has cost this land *Rs. 58* crores from the day these payments first began to be made to the day when these guaranteed companies earned sufficiently to pay their own Interest charge. In the original agreements with the first guaranteed companies, it had been clearly provided that when the guaranteed companies began to make a profit over and above the guaranteed minimum of return, the first charge on these surplus earnings would be that on account of the payments made from the ordinary revenues to make good the promised minimum of return. This was a perfectly simple, and usual provision in regard to a commercial undertaking. For no such undertaking can be declared to be a really earning asset, or to have made a real profit, until all outstanding debts were paid off from the revenues. The payment out of revenues of the deficit on account of the guaranteed interest was a debt to the public revenues. So long as the debt was not discharged, the creditor would be entitled to interest on the amount outstanding at an agreed rate; and, according to correct business practice in such matters, this interest must be calculated cumulatively, in the absence of any other arrangement to the contrary. Under the orders of the Secretary of State,* Interest was to be charged to the

* Clause 18 of the Original Agreement provided:—

"That so soon as the said Railway Company shall begin to work the said line of the Railway, or any part thereof, and henceforth during the said determinable term of 99 years, the net receipts.. shall be applied, in the first instance, in or towards discharge of Interest, which shall be payable by the Secretary of State in Council under their covenants in this Indenture contained, in respect of the said half-year, so as to exonerate the Secretary of State in Council, so far as the same net receipts will extend, from the payment of such interest, the money to be so applied being reckoned at the fixed and permanent exchange of 1*s.* 10*d.* per Company's rupee, **and the residue (if any) of such net receipts shall be applied in manner following, that is to say, one moiety thereof shall be forthwith applied in the repayment of such sums of money as shall at any previous time or times have been paid by the Secretary of State in Council to the said Railway Company, under the covenants in this Indenture contained, by way of interest as aforesaid, together with simple interest on such sum of money at the rate of**..............per cent. per annum from the times of payment respectively and such moiety shall be paid into the Treasury, of the Government at................................. and shall be reckoned at the said rate of exchange, and shall be applied in the reduction and discharge of the whole of the interest payable to the Secretary of State in Council on the said sums of money, before the same shall be applied in liquidation of any part of the principal thereof, and the other moiety of the said surplus net receipts shall be paid to or applied for the use and benefit of the said Railway Company."

This was a clause in the Original Agreements; it was modified by a new Contract between the Secretary of State and the Guaranteed Railway Companies, dated the 17th November 1871, as follows:—

"That henceforth during the said determinable term of 99 years the whole net receipts which shall be realised during any half year from all Railways and works belonging to the

Railway Companies on all arrears of guaranteed return paid out of the public revenues at 4 per cent; and as no prohibition was laid against calculating this charge at compound interest, the interest thus chargeable ought to be calculated at 4 per cent. Compound Interest. The claim, then, of the Indian public against these Guaranteed Railway Companies on these counts would amount as follows:—

		Rs. (crores)
1.	Deficits of Guaranteed Interest made good out of public revenues	58'00
2.	Interest (simple) on above, at 4%	72'00
3.	Strategic Railways	33'00
4.	Bonus paid to Guaranteed Railway Companies on acquisition	50'00
	Total claim ...	213'00

This does not allow for compound Interest on arrears of amounts due to the State from the Railway Companies, nor for losses on account of Exchange. The former item alone would aggregate over 300 crores.

150. *Inequity of waiving claim to Guaranteed Interest paid out of Revenues.*—By an arrangement, however, made in 1871 by the Secretary of State, over the head of the Government of India and despite their protest, with these Guaranteed Companies, the terms regarding the payment of these deficits of Guaranteed interest were radically modified. Under the new arrangements all claim for interest paid out of revenue, and which was repayable out of railway profits when they began to be made, was waived, Government contenting themselves only with sharing equally the surplus profits from every such Guaranteed Railway, after the Guaranteed Interest charge had been made. **This was a most iniquitous transaction, a most inequitable surrender of a very valuable claim.** As the main claim of Interest payment was sacrificed, necessarily the claim regarding interest on this interest, whether simple or compound, had to go

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[*Continued from page* 94.

said Railway Company,...shall be applied in the first place in or towards discharge of the interest which shall be payable by the Secretary of State in Council under the Covenants for that purpose contained in the hereinbefore recited indentures in respect of such half year, so as to exonerate the Secretary of State in Council, so far as the same net receipts will extend, from the payment of such interest, the money to be so applied being reckoned at the exchange of 1*s*. 10*d*. per company's rupee, **and the residue of any of such net receipts shall be applied in manner following** (that is to say), **one moiety or half part thereof shall be forthwith paid to the Secretary of State in Council as part of the revenues of India, and the other moiety or half part of the said surplus net receipts shall be paid to or applied for the use and benefit of the said Railway Company;** provided always that the provision hereinbefore made for the application of the said residuary or surplus net receipts shall henceforth be substituted for and supersede every provision as to the application of the residuary or surplus net receipts contained in the hereinbefore recited Indentures or in any contract now subsisting between the Secretary of State in Council and the said Railway Company, and every such provision as last aforesaid shall, from the date of these presents cease to have any effect. **And further, that the Secretary of State in Council shall cease, except as provided by this present clause, to be entitled to be repaid under any circumstances whatsoever any part of the money which he may have paid or may hereafter pay to the said Railway Company for Interest on money paid, or payable by him under any of the aforesaid Indentures or these presents.**"

by the board. This, however, lost India a most substantial amount; and before the railway property can be taken in valuation as assets against which a given debt is to be set off, this original inequity must be removed; and the loss suffered by the Indian revenues—and thereby by the Indian people—must be first made good from the value of these assets. The Secretary of State had no justification to make this surrender even for the future, while it is open to grave doubt if he had any authority to surrender or waive the claim for past arrears already accrued due to the Government of India. And if the transaction as a whole is found to be legally invalid or inequitable, no amount of lapse of time can bar the claim of the Indian people on this account. **Hence, from the 745 crores of Debt supposed to be incurred on Railway account, a minimum deduction by way of excess charge, or set-off, of Rs. 213 crores should be insisted upon before that figure is allowed to pass muster.**

III.—Debt on account of Irrigation Works

151. *Total of Irrigation Debt: Its nature.*—The total capital debt incurred for irrigation projects, both productive, and protective, amounts to Rs. 123'02 crores, not all of which may be outstanding. **No question need be raised as to the liability of the Indian people for this, as the country has got substantial revenue yielding assets as against this debt.** We must, however, point out the striking contrast between this debt, and the debt incurred on account of other heads of a so-called productive character. In the first place, the debt incurred on account of the Irrigation Works, both protective and productive, has been employed in a manner which adds directly to the sum total of the material produce in the country. The extra produce raised every year as the result of these works is valued at Rs. 142 crores,—more than equal to the total capital invested on that account. Moreover, the principles of accounting adopted in this connection have been so rigorous, that no projects of irrigation are allowed to be classed as productive, unless, within ten years from the date when the first sod was cut, every such project is able to pay all its working expenses and interest. Such a rule has resulted in a rigid scrutiny being constantly exercised on all proposals for Irrigation Works, which has made them in the aggregate so productive. There have, besides, been no private corporations in this field, who, being guaranteed a minimum of fixed return from these works, need pay no attention to economy in construction or working. So that altogether there has been no avoidable wastage or dissipation of public resources in this field. The income from these works is derived in the shape of water-rates on lands irrigated from these works; and as the burden of these rates falls on the extra produce raised by these means of regular water supply, the taxpayer does not feel the burden of these rates. These are, in effect, fair price paid for a commodity supplied. The irrigation canals in the Punjab and Sind particularly have brought lands into cultivation which were, in the absence of these facilities, doomed to remain barren and untilled. Even the capital cost of these projects could have been recovered much more quickly from the sale of the lands so reclaimed, had Government utilised the opportunity, and had there been sufficient capital in the country for such investment. As it is, the burden caused by these obligations occasions no extra strain on the resources of the provincial governments concerned; and, on the contrary, they add materially to those resources, as the aggregate average yield from all kinds of such works is over 7%.

IV.—Other Commercia Departments.

152. *Postal and Telegraph Service Debt.*—The debt in regard to the other assets or departments, described as productive or commercial, is not, comparatively speaking, very considerable. Nor are the principles of chargeability in relation to

the same at all so complicated, as in the department of railways. The debt, for instance, in connection with the Posts and Telegraphs etc., is returned as Rs. 23 crores. The assets in respect of this combined department may not unreasonably be expected to be an equivalent in the aggregate, which may thus well be assumed to bear their own burden. The Postal Services in India are yet in their rudimentary stage. The department is not operated so that, compatible with rendering the best and the cheapest service to the community, the result would be a handsome net surplus to the public exchequer. But the seed is there, and can well be cultivated so as to yield an increasing return from this vast department. In any case, and even on the present basis of its revenue from all branches of the service it renders, the debt on account of the Postal Service may well be said to bear its own burden. As in the case of the irrigation works, so here, too, the principle of keeping such great Public Utility services in the hands of the State has been adhered to, with the result that there has been no such wastage, extravagance, or avoidable and inequitable burden on the people of India, which we meet with in connection with the Railways.

V.—Provincial Debt.

153. *Balance of Provincial Debt.*—The remainder of the Provincial Debt, after deducting the charge in respect of the Irrigation Works, is of a doubtful productive utility. A great portion of it is of the nature of the notorious Bombay Development Department Loans. That scheme is admitted, practically on all hands, to be a failure, driving home irresistibly the conclusion that it ought never to have been undertaken. It was, however, undertaken, for the benefit of the British capital and labour, which, at the end of the War, was face to face with a heavy slump. India as usual was made the milch cow for the support of the British Industry. The result is a burden, on the province of Bombay, of over 10 crores,—for which ultimately the Government of India is responsible, but for which the assets are practically of no value. The claim, therefore, of such debt to rank as productive is illusory; and the obligation having been foisted upon India exclusively for the benifit of British unemployment relief, it is unfair and inequitable that its burden should rest entirely on the Indian people.

154. *Productive Assets of Local Bodies.*—As for the amounts advanced to Municipalities, Port Trusts, Improvement Trusts, and other similar semi-governmental bodies through the provinces not all the amounts spent through these bodies are productively employed, in the correct sense of that term. The collective balance sheet of the local self-governing bodies does not show these to be self-supporting or earning corporations. Their burden of debt is maintained, no doubt, but that maintenance comes rather from their powers of taxation, than from the real earning capacity of the assets created by these means. The Sewage Works and Water Works in towns like Bombay are more showy than earning; and the burden of debt in connection with them is laid out,—not always with a keen eye to economy, or getting the best value from the investment made. This criticism applies more strongly, if anything, to the debt of the several Port Trusts. The burden of that debt is supported by the corporations concerned, thanks to their powers of levying contributions from the trade passing through their port. Very little is earned by the properties built up out of these borrowed funds. The whole of the provincial debt, therefore,—apart from the Irrigation works,—may be dismissed with the remark that the assets in support of this debt are no more than the taxable capacity of the people within the respective jurisdiction.

The debt in building up afresh a new capital for the Government of India at Delhi is, strictly speaking, not of a productive character. The amount

spent upon it,—some Rs. 15 crores in round terms—may, therefore, be regarded as a debt without any real assets to support it. As, however, the amount is, relatively small, and as the new capital may have a political, if not a material, value, the question of the liability in regard to it need not be pressed very hard, so as to relieve the Indian people altogether from this charge.

155. *Debt Due from Indian States.*—The remaining item of the so-called productive debt of India, *viz.*, capital advanced to Indian States, is by no means all made up of productive or earning assets. The general reasoning in respect of the amounts loaned to the local governing bodies has already been outlined above; and the same may certainly be applied, if anything, with greater force, to the benefit obtained out of such borrowed funds by the Indian States. Very little really earning capacity is obtained by this means in those parts; and so the only ultimate support of these loans is in the taxable capacity—the limits of squeezability, as one Anglo-Indian economist calls it—of the people in those territories.

156. *General Conclusion.*—The general conclusion, then, of this whole survey of the so-called Productive Debt of India is: (*a*) That of the five or six items of productive character, only two,—Railways and Irrigation works—can, strictly speaking, be classed as such; (*b*) that the productivity of the railways and their contribution in the economic development of India is wholly different from that of the Irrigation Works; (*c*) that the aggregate capital at charge on account of the Railways must admit a counterclaim of 213 crores at least as detailed above, before liability on that account can be accepted by the Indian people; though in strict commercial accounting and rigorous justice the counterclaim would be at least doubled; (*d*) that the debt on account of the Irrigation Works and other commercial departments may be admitted as covered by sufficient earning assets transferred automatically to the new Government of India; (*e*) that the "productive" character of the debt due from the provincial Governments, local self governing bodies, or Indian States is extremely doubtful, the only support for the maintenance of this burden being found in the taxable capacity of the people within the respective jurisdiction; (*f*) that even if full liability is assumed in regard to these, an exception must be made in respect of the Bombay Development Debt, (15 crores), which was incurred in the teeth of the protests of the people concerned, and against which, therefore, very little of valuable assets of a productive or earning character are available.

CHAPTER V.

Review of Financial and Fiscal Policy.

157. *Need to consider General Financial Policy.*—I have hitherto considered only the specific items or groups of items of financial obligations incurred by the Government of India, which it appears to me competent to India to challenge, on grounds of international usage or convention, or on the still broader principles of international equity and propriety. That, however, which has made all these transactions in their aggregate the exhausting burden that they prove to be on the Indian people, their accumulated wealth, or productive capacity has not yet been considered. Without such a consideration,—if only in the briefest outline,—of the general fiscal policy of the present British Government of India, it would be impossible to appreciate the full force of the pleas advanced in respect of specific obligations in the preceding sections of this report. Without some understanding of the innumerable directions in which the present Government have sucked dry the very life-blood out of this country; without some idea of the countless ways in which India's opportunities have been wasted, possibilities neglected, resources exploited for the advantage and enrichment of the British people, any argument about inequity of a given transaction might seem a trifle academic. Hence in this place I have collected and reviewed all those considerations of guiding policy and general outlook which are impossible always to be traced or located in the Government's books of account; but which in their cumulative effect clearly prove how India was regarded and utilized as an eternal milch-cow for the nourishment and delectation of the British alone.

158. *Only such aspects of policy considered as are capable of Pecuniary Representation.*—Lest the preceding observations should cause any misapprehension about the aim and purpose of this Chapter, I hasten to add that not all the evidence marshalled in this Chapter is lacking in substantial figures. In fact the most obvious and incessant channel of India's exploitation under the British rule is the so-called Home Charges, which make a direct visible drain from India, capable of very exact pecuniary statement. Reference has already been made to a calculation made by Mr. Montgomery Martin, giving evidence before a Parliamentary Committee of 1840.

159. *Real Havoc of the Home Charges analysed.*—But the burden of these Home Charges has increased tenfold since Mr. Martin made his calculation, and their havoc has continued for 90 years since his days. Even if we take the average burden of £10 millions per annum (it is at present nearly £30 millions, and has remained at this figure or thereabouts for the last 15 years), and if we consider the drain only for the period of the direct Government of the British Crown,—some 70 years,—the proportions of the drain from India will pass even astronomical notions in calculation.

The items comprised under these Home Charges are :—

1. Interest on productive and unproductive sterling debt.
2. Payments on account of Posts, Telegraph and Mint in England.
3. Miscellaneous civil charges, including Leave and Pensions Allowances.
4. Remittance on Railway Revenue Account.

5. Public Works.
6. Military or War Office Charges on India.
7. Direct demands on Revenue etc.
8. Stores.

Except perhaps, for the stores imported on Government account, the majority of these items of charge on India do not bring any material value to India in return. They are payments on account of "services" rendered by the non-Indian officials of the Indian Government, Civil and Military, which could as well and far more economically be performed by the eligible children of the soil, if only they had proper entrée into these services, and adequate opportunities. Their virtual exclusion, almost until only the other day, from the higher and better paid posts in their own country's service is not only an injury to themselves, but a still greater injury to the country. For the non-Indian public servant of India, taking a place that an Indian might well have occupied, not only keeps out such an Indian from the experience as well as the emoluments of such employment; but, when he retires to his own country, he takes away the pension etc., attached to this service, together with the ripened wisdom and experience gained during these years of active service. So that India must not only suffer her own sons kept out of the opportunities of serving their motherland, but she must also forego the tangible as well as the intangible wealth that her foreign servant on retirement drains away from her.

160. *Home Charges drain away India's Potential Capital.*—This drain works another injury on India, which is not perceived by those who look merely on the surface of things. India, it is said, lacks capital for building up modern industry, which alone can economically rehabilitate her. But all "capital" in any community is nothing but the surplus of production over consumption. India is a poor land ; but still she may have some small surplus available every year, if only because her children are living such a pitiful standard of life. But how can even that surplus be available for productive reinvestment, when she has to submit every year to such an enormous drain ? India could have built up in the last 100 years an unassailable industrial position, if only *her* interests had been considered in priority of all others by her rulers. But lacking in the first essential of modern large scale industry—capital,—India naturally could not take her place in the roll of the industrialised nations of the world ! She was then doubly taxed, first by the drain of one possible source within her of the capital necessary for industrialization, and then by a policy of economic exploitation, under the guise and pretext of Free Trade, which made her every year progressively more and more impoverished.

161. *Hidden Sources of further Drain.*—Of this fiscal policy a word would be said hereafter. Let me, however, point out here what the net effect of this drain amounts to in actual life. For a proper appreciation of this net effect the figures of any particular year would not be quite suitable ; but if we take them over a series of years thay may give us more satisfactory results. In the first fifteen years of the present century before the War, India had a net excess of exports of her merchandise which amounted to £296,454,675. Against this, she had to make payments of the Home Charges aggregating during the same period £322,534,786. In the same period the total debt incurred in England, allowing for the repayment of the debt which fell due in the same period, was £50,941,551. These borrowed moneys would however be available as much as remittance from India for payment of the Home Charges ; so that we may deduct this amount from the total of the Home Charges during the same period.

On this basis the balance of amount payable from India's current revenues,—or what is the same thing for this purpose,—from India's surplus produce exported every year, is reduced to £271,159,323. Our total excess of exports of merchandise is given above; and the monies due to India in respect of these are eventually used to pay for the Home Charges. If, therefore, we deduct from the excess of the exports £296,454,576 the amount of the Home Charges net £271,159,323 on the above basis, a net balance of £25,295,253 remains to be still accounted. This amount probably represents the net remittances of private Britishers in India, engaged in industry, trade or profession, and able to make remittances to their home from their surplus profits.

162. *Drain due to Foreign Capital in Indian Enterprise.*—This last-mentioned source of drain is unnoticeable in the mere consideration of the figures of the Home charges. Even as we have stated it, the amount given above does not really represent the full extent of the profits made by such non-Indian exploiters of India through their business or profession in this country. A considerable portion must be re-invested by them in their business, leading to an accumulation of future claims against India, the full force of which is impossible to realise from these figures. There is a total investment of non-Indian capital in companies registered abroad, but working wholly in India, of £1000 million in round terms. In spite of the prevailing intense depression, these concerns are so entrenched as to feel very little the effects of such depression. Even if we assume, after allowing for this depression, an average clear profit for such concerns of 6%, the net gain to this foreign capital would be some £60 millions sterling per annum. Not the whole of it need be or is remitted every year, as a good deal may be needed for re-investment in the expansion and development of the existing industry. But the whole of it thus accumulated constitutes increasing claims against India in the future, which means so much mortgage on our future resources. The part of the Indians in this foreign industry is little better than that of hewers of wood and drawers of water. The presence of these entrenched vested interests makes for an economic policy in the Government of India, which, being in the hands of the non-Indians, leads to a further intensification of this exploitation. Hence the double and the growing evil of this unseen drain.

163. *Drain Due to Foreign Shipping, Banking and Insurance Monopoly.*—Another item of drain, which similarly escapes any place in the available figures relating to the trade and finance of India, is the freight charge upon our Overseas trade. That charge alone, taking coastal as well a overeas trade, has been calculated to aggegate something like 40 crores of rupees per annum! Given even the present very low freight rates and depressed trade, that charge cannot be much less than 15 crores of rupees on our coastal and foreign trade combined. Practically the whole of this business is in non-Indians hands; and so the amount stated above,—the gross receipts of the non-Indian Shipping Companies which have built themselves up a monopoly of India's carrying trade in Indian as well as foreign waters,—must be regarded as a drain from India. Similar to this effect, if not in quantity, is the practical monopoly of the non-Indian Banks in the financing of India's foreign trade. This trade aggregates between 500 and 600 crores of Rupees per annum; and if we take only the financier's commission at 1½% to 2% only,—a ridiculously small figure,—the net gain to these foreign bankers is nearly 10 crores per annum. This is in effect an additional tax upon the Indian producer and consumer. If Indians were doing the same business, they could at least secure the net gain within the country; and make it available in one way or another for the further development of the country. As things stand, however, these foreign financiers are not content with this clear gain. They insist on a financial and currency policy of the Government of India

which must go far to maintain these their privileges. And they use their dominating position in the Indian money-market so that the Indian trader and industrialist must pay them an endless toll. The same applies to the Insurance Companies of non-Indian origin working in India. Altogether, between them, these three indispensable adjuncts of industry and commerce, preponderantly in non-Indian hands, levy a toll running into over 50 crores per annum in the years of the heaviest depression ; keep Indian enterprise out of this profitable field ; and dictate an economic policy to the Government of India, which inevitably leads to the steady grinding down, exploitation, and impoverishment of the Indian people.

164. *Effect of Drain Cumulative.*—The effect of this drain is, as already noticed, cumulative. The very fact of the drain results, in the first place, in a withdrawal of the capital necessary for equipping or maintaining modern industry in India. And because modern industry cannot, under such conditions, make head against the fierce competition of its foreign rivals, it naturally looks to the state for such aid, encouragement and protection, as in every civilised state it has become nowadays the most imperative duty of the Government to render to the country's industry. In India, however, if the indigenous industry, which is at all in a position effectively to compete in the Indian market with the corresponding wares from Great Britain, is adequately protected, the industry of Great Britain must suffer. And because they would not have British industry suffer they insist on a policy of Laissez faire. There is no other explanation of the policy of rigid freedom of trade,—and even of taxing Indian industry to counterbalance such advantage as adventitiously falls to its lot by an unexpected conjuncture of circumstances,—which has prevailed in India practically ever since effective power in its governance had passed to an alien race.

165. *Ruinous Fiscal Policy.*—The woes of the Indian industry and of all those factors working for the prosperity of India dependent upon the economic policy of India, it would take us too long to bewail. I have already referred to the disastrous effect, so far as India is concerned, of the Currency and Exchange policy. I have just mentioned the still greater harm done by the fiscal policy pursued for over a hundred years, which has resulted in the industrial decay of India, that the native resources of her soil climate and people in no way justifies; and which, if only there had been the merest modicum of protection and encouragement to indigenous industry would never have languished, much less decayed in the manner they have done. I leave it now to the reader to assess the money value of these factors as best he can, and if any counterclaim is found desirable or necessary to urge in respect of this intense and incessant exploitation of our resources and the impoverishment of our people.

166. *Exemption from Income-tax.*—I must, however, make a special mention of one peculiarly invidious method by which the present non-Indian Government has given special advantage to the holders of its sterling bonds, and thereby placed additional burdens on the tax-payers of India. This is done through the instrumentality of the income-tax payments. An income-tax is levied by the Government of India on all incomes received in British India or earned in British India. And yet incomes derived from the Government itself, if payable in sterling, are, by an *obiter-dictum* of the British Law Officers, allowed to remain exempt from the Income-tax of the Government of India. The loss resulting to India on this account now runs into several crores per annum. The total sterling payments made by the Government of India to its Bond-holders resident abroad, as well as to its public servants and retired civilians in respect of their leave, pensions and other allowances, run into several million sterling. Taking hat figure at 30 million sterling only, and taking the rate of income taxation of 13

per cent., the present maximum rate, the Government of India could very well derive five crores of rupees at least from this untouched source alone. Even allowing for rebates permissible under the law from such taxation, the net benefit for the Government of India, if such taxes were charged, would be not less than four crores! As a matter of fact we might even follow the Britishers' own analogy of a distinction between earned income and unearned income; and place all incomes withdrawn from India, because of the recipient being domiciled abroad, on the footing of unearned income for the purpose of taxation, and tax them more heavily and differentially, without benefit of refund. The *rationale* of such a differentiation is quite simple. While the Indian incomes remain in India for the further enrichment of Indian industries, the incomes thus withdrawn from the country disappear from the country once for all; and so need to be as heavily taxed as we can manage. The differentiation can the more easily and justly be made; for what would be the gain to the Government of India in this way, would be no loss to the recipients of this income abroad under the Indian income-tax. For, under covenants made with the Dominions on this same subject of double taxation, the arrangements have been made whereby the British Government foregoes, up to half of its maximum rate of income taxation, on all incomes which have paid similar taxes in any British Dominion. The same arrangement can be made and applied in the case of India. The result would be that since the maximum Indian tax is below half the rate of British maximum Income-tax rate, all that the tax-payer pays to the Indian Exchequer would be refunded from the Inland Revenue Office of Britain as having been already deducted. With such an arrangement the British Treasury may lose some part of its present unjust income derived from India; but the British bond-holder, pensioner, official entrepreneur concerned with India would suffer no diminution of his net income. In spite, however, of this clear source of substantial income open to them,—and I may mention in passing that the present Finance Member himself is perfectly aware of this possibility as well as its justice and reasonableness,—the Government of India have, until very recently, taken no steps to make this charge on the recipients of incomes in sterling from them. The consequence is that the Indian tax-payer on a 5 per cent. sterling loan, thus automatically exempted from the Indian Income tax, pays really more than 5½ per cent. and of 6 per cent. over 6¾ per cent. As in recent years particularly the policy of borrowing in England has been pursued by the Government of India almost without limit, the increase of burdens in these years has been proportionately much greater.

167. *Loss caused by Investment of Indian Reserves in Sterling Securities.*—Reference has already been made to the Currency policy of the Government of India and its ruinous consequences to India. We cannot, however, omit to touch here upon one particular aspect of that policy which leads the Government of India to keep substantial reserves invested in England. The value of this investment of Indian Reserves in British securities is impossible to exaggerate. The British money market is obviously relieved to that extent. Being an international centre, that market is particularly liable to gusts of storm from all quarters of the globe; hence the presence of large funds, sure not to be withdrawn in an hour of international crisis, benefits the British money market far more than can be measured in money. But what is the cost of this to India? The absence of such large sums from the current cash of India makes the Indian money-market needlessly tighter, particularly in the busy season, than it otherwise would be; with the result that the Indian trader, and through him ultimately the Indian producer, has to pay a heavy additional tax in the shape of a much higher bank or loan rate. How serious this injury is to the trade of India can scarcely be appreciated by anyone

not familiar with the actual trade conditions. I mention it, however, not so much to emphasise the harm done to India in this indirect way, as to sound a note of warning to the possibility of harm inherent in the policy of keeping these large and practically liquid resources in a centre away from this country. In any case these must be accounted as very good assets against such obligations as India accepts and desires to liquidate.

168. *General conclusion.*—The several intangible counterclaims open to India as shown in this Chapter are, by their very nature, impossible to assess in pecuniary terms. They are, however, most material considerations germane to the entire problem : and no settlement of the question can, I submit, be made without due regard being paid to these. The fact that they do not admit of an exact pecuniary statement should not be allowed to deny their validity altogether, or to question their admissibility in evidence.

169. *Summing up India's claim.*—What India desires, then, from a review of all the obligations that have been cast upon her, or incurred in her name, by her present alien government, is a relief against such of those burdens as are not justly chargeable to her. Where these unjustly charged burdens are capable of specific monetary statement, the exact value of such a burden should be relieved from her shoulders. It may be,—it is indeed a well known fact of history,—that the value of money itself is not a fixed quantity; and that, therefore, a burden, which fifty or a hundred years ago was expressed by one crore, would to-day require three times as much energy or material to bear. In such a hurried review as I have had perforce to make in the present survey, considerations of this kind are inevitable. But their inclusion would make for such immense complication and even confusion that, for the sake of a clear account, it would be as well to resign ourselves to the exclusion of these circumstances. Again, on all sums, definitely stated in money, which have been unjustly cast upon us, the correct procedure would be: not only to disown the original burden, but also all interest paid on these unjust burdens from the date of their being charged upon us. The influence of this factor has already been indicated when we were discussing the claim of the Indian Government against the arrears of guaranteed railway interest made good out of revenues : A principal sum accrued due between 1848 and 1918 of Rs. 58 odd crores has an aggregate interest charge at 4% simple interest upto 1918-19 of over 70 crores ; while at compound interest the same sum at the same rate would aggregate for the same period over 219 crores. Indication has also been given of the real effect of this cumulative wastage, as far as the drain of a possible source of economic capital in India is concerned, while discussing the Home Charges in this very Chapter. If, therefore, even simple interest for the period during which the main claim in respect of each group has been outstanding is claimed, the sum demandable in this country by way of relief against unjust burdens cast upon her in the past, would more than suffice to wipe out all her obligations. Such a claim for interest is justified by the accepted principle of jurisprudence in every civilised system of municipal law ; and even a claim for compound interest may be justified,—at least as between India and Great Britain, —on the analogy of the procedure that has governed for this century or so the British War Office charges made against India. The advocate of India's claims before the ultimate tribunal must bear this in mind. And though he must be free to deal with it as he likes, the abandonment of this claim—supposing it were decided to do so—must be made conditional upon due and full weight being given to all the counterclaims,—tangible or intangible,—mentioned above. India may think not crying over spilt milk's possible nourishment to her generations yet unborn as the better part of practical statesmanship. But if so, let it at least be clearly under-

stood that a very considerable and substantial claim, perfectly easy to state in terms of money if need be, is abandoned or not pressed in respect of Interest, not because Indians are unmindful of such their just claims, but because they would not dwell too much on the ravages of what has happened. What has happened in our nonage has happened. Let us not bewail that lot all the time, and do nothing else. Let us rather save what still can be saved: and then set about, with new hope and fresh courage, doing what the country stands most urgently in need of.

CHAPTER VI

Summary of Conclusions and General Reflections.

170. *India's claim based on General Principles of Interpopular Equity.*—We have now reviewed all the claims in respect of the transactions of the British Government in India, which this country might urge against the existing burden of her so-called Public Debt. These claims have been based, it need hardly be repeated, on broad principles of justice and equity as between one people and another. These principles are of common acceptance, and must be obeyed by every community professing itself to be civilised. They are, also being increasingly given effect to in international dealings, and adjustments, since the establishment of the League of Nations. Though that body may not be al it could be wished to be, as regards the meting out of impartial justice as between the weak and the strong nations of the world, the hope may not be unreasonably entertained that, failing any settlement by mutual agreement between the principal parties concerned, the claims herein put forward will be agreed to be submitted to the League of Nations, to be examined into and adjudicated upon by that body in the spirit of substantial justice that alone ought to guide such dealings between one people and another. India is an original member of the League in her own name and right, just as much as Britain; and though her Government and their nominated representatives on the League assemblies and tribunals have hitherto behaved as mere subordinates to Britain, that is no reason why full use should not be made of this her position in the League of Nations by India in the defence and vindication of her just claim. Such claims, it is true, are not submissible to the League of Nations as a matter of course. Parties must be agreed among themselves upon such a submission. But there is nothing inherently wrong or unlawful in the demand by India for such a submission, in the event of no agreement being reached upon the question itself by the parties concerned. It may even be that the mere knowledge that such a demand is to be made may act as a stimulus to the party unwilling for such a submission to come to a settlement among and by themselves. There can, of course, be no doubt as to the competence of the League to entertain such a question, or even as to the principles it would apply in its disposal.

171. *Supported on Grounds of International Usage and Conventions.*—In basing these claims on the broad principles of interpopular equity, the necessity has not been overlooked of strengthening them, wherever possible, by grounds of international usage, convention, or precedent. Several cases have been pointed out, by way of analogy, which bear very closely upon particular Indian claims. The sanction received by such precedent, not only in its general acceptance in regard to mutual dealings between the civilised nations of the world, but also by its adoption by the League of Nations ever since its formation, must go a long way to strengthen the general argument of equity running through the preceding paragraphs. International usage is still largely vague and undefined, in spite of the formation of the League of Nations. Nevertheless its acceptance in even a single case of like description with India's must give that country every right to urge it. The authority of such usage almost rises to the plane of a positive command of the sovereign in municipal law, when the usage in question is found as between one member and another of the British Common-

wealth of Nations. As for convention, though it is not strictly with reference to India, the force of such Treaties of international authority and complicated settlement, like those made at the end of the European War of 1914-18, cannot be only of local validity. India, though not itself directly a party to such treaties, must be allowed benefits of the principles enunciated or implied therein, if only because of her membership in the League of Nations. The precedents quoted are, it need hardly be repeated, taken mostly from within the history of the British Empire so as to make the main argument as telling as possible. But wherever cases are found applying to the particular claim reviewed, even outside the British Empire, they have not been omitted. Necessarily the British Empire precedents must commend themselves more to the parties likely to be primarily engaged in the settlement of the Indian question ; and settlement is more likely to be by mutual agreement on that basis, without reference to the League of Nations. Prominence is accordingly given to these Empire precedents in the preceding argument. That, however, does not preclude the general principles of substantial justice found in other cases being taken into consideration when applicable.

172. *Also on strictly legal argument.*—Support has likewise been sought for the general argument of the case outlined in the preceding pages in such maxims or principles of Municipal Law, relating to the dealing between private individuals, as by analogy bear on the present case. Attention has chiefly been drawn to the duty of the Trustee in managing a Trust estate, and placing encumbrances upon that estate, during the period of his Trusteeship I have not been unmindful of the difficulty of translating fully the idea of political trusteeship into a legal obligation enforceable before the proper tribunals. But at the same time I have based this consideration on a Trustee's duty to his Trust, if only as a kind of acid test of the truth of the British profession in regard to the governance of India. Apart from the doctrine of Trusteeship, moreover, I have also tried to consider the propriety and fullness of the contractual obligations, said to be implied in the so-called Public Debt of India in its several forms. The question of the suitability of the party to incur these obligations ; of the adequacy of the consideration received ; of the fullness of the consent given, and all other points material to a proper contract binding at law upon every party concerned, would, if passed, also reveal the imperfection in the obligations referred to. The merely legal argument may not, perhaps, by itself, suffice to vindicate and establish India's claim beyond question. But they are urged, if only to show that, even in a purely legal dispute, India's case is not lacking in some argument that would bear close scrutiny.

173. *Claims of Mutual Good Will being Preserved.*—Apart from these, the main argument has been placed on grounds of equity, and supported by the claims of retaining mutual goodwill between the parties concerned,—India and England—when the question now at issue between them is settled. Any concession or modification of the mere letter of a claim, made on either side, would be gracious as well as mutually beneficial, only if in the future we desire our mutual relations to continue on a friendly footing. This consideration has been kept prominently in view, the more so because it has been agreed to arrive at a settlement of the Indian question by negotiation and conference, rather than by more forceful and drastic methods. In any such conference, held in an atmosphere of mutual goodwill, consideration of the future of India cannot be utterly out of place. That the future Dominion of India will, if the pound of flesh is rigorously exacted from her in respect of the so-called obligations of her, be unable to keep her place in the roll of nations, would be evident by a moment's reflection to any one who considers the economic effects of such a burden as is now proposed to place upon India. India

must be able to make a new and a fresh start. She must be enabled to rehabilitate her wasted resources, recapture her lost opportunity, recover her original position as the banker and workshop and the wonder of the world. Unless India is able to pay her way ; unless she is able to take the place in the commonwealth of nations that is her due because of her size, her population and resources, not only India or the British Empire, but even the world at large would be the poorer indeed. A rehabilitated and economically progressive India would be a boon to the world. The prevailing economic depression may very largely be remedied if India ceases to be exploited as she has been in the past, and is able in fair exchange to give her products to the world demand, and receive from the world her own requirements, to mutual advantage and profit. On the other hand, an impoverished and exploited India would be unable to support the burden of such intensive and ruthless exploitation for any considerable length of time ; and the discontent which arises from the inability to support such a burden must necessarily carry in it the germ of serious menace to the peace of mankind. There is thus ample justification for presenting these claims on behalf of India, not only in the immediate interests of India, narrowly conceived, but also in the interests of world peace and amity at large.

174. *Moderation in Stating the Case.*—A word of explanation may also be added as regards the general tone of the arguments advanced in these paragraphs. To any one who considers the claims reviewed in the preceding paragraphs, and summarised here below, it would be evident that the case errs, if at all, on the side of excessive moderation. Only clearly marked and definitely expressible claims have been urged. (1) No claim is advanced where there is either the slightest doubt of the clearness and preciseness of the claim, or of its propriety and justice to be urged in an impartial tribunal. For example, no claim is countenanced in regard to the compound interest, or even simple interest being claimable, with respect to any sums which are charged on India, but which ought not, in the first place, to have been charged. (2) No claim, again, is made, except where there is the fullest evidence of making it specific, actual, and pecuniarily precise. This second limitation on the claims to be urged is dictated by considerations of practical statesmanship, even at a sacrifice of theoretical completeness, or strict logical consistency. Our claims have necessarily to be clear and specific, though the principle applied in examining the claim have, equally necessarily, to be general. (3) And the claims having to be precise, pecuniarily speaking, only those have been included in the foregoing review, which were shown on the balance to be outstanding in the aggregate. The several components of this final balance outstanding have not been individually scrutinised, not only because such individual cases might not bear scrutiny, but because I consider the final balance outstanding to be fairly embodying in itself all the relevant items. Thus, for example, the claim with respect to the sum total of the transactions, carried out by the East India Company during a hundred years of existence, has been presented only as it appears in the final account at the date of the transfer of the government of India from the East India Company to the British Crown. That does not mean that all through a century of exploitation by a commercial concern, there was nothing besides what appears in the final account which could be protested against and disowned. Nor does it mean that all those amounts, which were discharged from time to time in regard to the debt incurred by the East India Company, are tacitly admitted by this procedure to have been justly discharged out of the revenues of India. All that the course here adopted means is: that **it is all but impossible to go into the details of all the various transactions entombed in the mist of a hundred or even eighty years ago.** It is practical wisdom, as well as the desire to maintain mutual goodwill, which has dictated the choice only of the final outstanding balance as the point on which to base the general claim. Incidental

consideration of individual items has been added only so far as it may be necessary to elucidate the general claim. The principle has been accepted that what has been has been; that what is paid off is paid off; and it would be no use crying over spilt milk. The commercial practice is, no doubt, true that every bill rendered is subject to E. &. O. E., that is to say, *Errors and Omissions Excepted.* But it would be useless to rake up all the errors and omissions of the past, and demand benefit of this usual exception that in commercial practice one may be entitled to. It is enough if the main claim is admitted, and agreed or adjudged upon. For the rest, we must accept it as an unhappy incident of our history that India should have been exploited and impoverished in this manner.

175. *Summary of the Claim.*—The claims, urged herein are:—

	In crores of Rupees
I. In respect of the aggregate of transactions of the East India Company	112
II. In the British period, claims in respect of:—	
(*A*) War charges,—for wars waged within or beyond the frontiers of India,—aggregating from 1858 to date as follows:—	
(*i*) Wars, etc. before 1914 that ought not to have been charged upon India aggregating ...	90
(*ii*) Civil and Miscellaneous charges similarly disallowed	30
(*iii*) Charges in respect of the European war of 1914-18, including the deficit resulting directly out of that war, loss of stores, extra military charges, etc., which are disallowed as not being justly due from India or chargeable to her	339
(*iv*) Loss in respect of Exchange policy of the Government, ever since Exchange became a material factor in the Indian financial equilibrium	125
(*B*) Productive Debt may be admitted, subject to counterclaim in respect of railways in regard to arrears of guaranteed interest paid out of the public revenues, and the interest on same paid to the Companies on the acquisition of their lines, as also Bonus	180
(*i*) Strategical railways	33
(*ii*) Developmental expenditure not justly chargeable to India	15
Total ...	924

176. *Difference with the Main Report Explained.*—This sum differs from the aggregate figure given in the main Report, because: (1) that Report has taken the debt directly traceable to losses in Exchange at an unduly low figure; (2) because the costs and charges imposed on India in the European War, though not legally chargeable to India, have been similarly under-

estimated; and (3) because the arrears of Guaranteed Interest paid to the Railway Companies from the public revenues of India, together with simple interest on the same, have not been adequately appreciated. As, however, the principle underlying the general argument is the same, the difference noted above is a difference of detail only. In the above figure, no allowance is included by way of interest, simple or compound, on the sums unlawfully charged upon India; nor is any concrete weight attached in respect of the ravages due to Drain, or the Fiscal Policy, or the injury to trade and industry wrought by the Exchange blunders. If allowance is made for these, the figure will be incredibly increased. I may incidentally add that the £387 million odd of sterling debt, as shown under para 93, is there converted at 18*d.* per rupee; and so gives Rs. 517 crores. This is only a conventional conversion. The debt was incurred mostly when the Rupee was 16*d.*, and no one can say what the rate would be when the capital of the debt is finally liquidated. The aggregate of the Rupee Debt thus made up is, accordingly, misleading. If the Sterling Debt is converted at the old rate of 16*d.* per rupee, at least 65 crores would have to be added to the figure given there; so that the aggregate of the so-called Indian Public Debt would have to be taken at Rs. 1,237 crores.

177. *Liability accepted in many cases.*—Liability has been accepted for debts incurred on account of the following, *viz.*, Famine, Irrigation Works, the rest of the Provincial and municipal or local governing bodies' loans, and loans to Indian States, minus such specific transactions as that in connection with the Bombay Development Department.

178. *Counterclaim—Its nature and Extent.*—Counterclaims have been urged, tangible, as well as intangible, in connection with the general exploitation of India, and her consequent inability to bear these burdens, as also in regard to specific advantages being given to Britishers in India, like that in connection with the exemption from the Indian income-tax of sterling incomes derived from the Government of India, with a view to make evident the reasonableness and moderation of the claims urged above. If these do not amount always to definite set-off, they at least make a good mitigating circumstance, while considering India's liability for her "Public Debt".

179. *Concluding Reflections.*—Finally, the assets against the balance of debts that India commands even to-day might be represented as follows:—

1. Gold and silver in Reserves and balances.
2. Securities, Indian and Foreign, in the Reserves.
3. Value of Railways, Irrigation Works, Postal Enterprise, Municipal and Port Trust Properties and enterprise, and the like.
4. Improved taxable capacity of these people, thanks to the relief obtained on the foregoing score.

180. In conclusion, I need only repeat that in making this examination, there has been no intention to affect unfavourably the claims of private individuals in respect of these obligations. If justice and equity were properly observed, not a single one of these private individuals' claims need suffer at all. For the part that is agreed or adjudged to be disallowed against India, as being not fairly claimable from her, should, in mere justice, be taken over by England as having received the full benefit of the Indo-British connection. I am not called upon to go further than this into the matter, but I cannot help adding that if any

injustice should unavoidably occur as the result of the intransigeance of the party really liable in respect of any transaction, and yet unwilling to assume that liability, the consideration must be borne in mind that wealth derived from an originally tainted source,—an originally inequitable transaction,—is not wealth that any conscientious and fair-minded citizen should persist in holding or claiming. The case may be mentioned in this connection of the American Civil War in connection with the emancipation of the Slaves held by people of the Southern States. At the end of the War, the Slaves were automatically emancipated; but on their emancipation, **no compensation was given to the pre-war Slave-holders.** Now, these Slaves were as much property as any bond of the Government of India held to-day by the private credit or of that Government. And just as no compensation was allowed or claimed in respect of the emancipated Slaves, because slavery as an institution was adjudged to be iniquitous, so too must such of these bonds as are not fairly claimable from the people of India, and which are not accepted by Britain, must be regarded as originally tainted, as having been created in the process of exploitation of India. Right-minded Britishers are averse, in their own country, to buy goods made out of sweated labour. Their thinkers and statesmen have condemned as immoral even private gains from a tainted source, as in the *Widower's Houses.* Why should, then, the same principle, the same unwritten law of civilised humanity, be not applied in these dealings between one people and another ? If Shylock must be condemned by the civilised conscience of mankind, and by the teachings of an English-playwright, for insisting relentlessly on his bond, and on the pound of flesh stipulated therein, how can that conscience acquit a whole people who call themselves civilised, who profess to glory even in dying for the cause of other peoples' liberty, if they insist rigorously on the bond, the whole bond, nothing less than the bond ? India makes this claim. Let Britain answer it ; and let the judgment of our peers in the League of Nations decide upon it.

(Sd.) KHUSHAL T. SHAH.

Printed by M. N. Kulkarni at the Karnatak Printing Press, 318A Thakurdwar, Bombay, and published by Jairamdas Doulatram, General Secretary, All India Congress Committee, Ahmedabad.